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2004 Federal Benefits Handbook

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Federal Pay

Overview of the Federal Pay Systems

The federal government is comprised of several different pay systems and schedules. The primary pay systems and schedules are the General Schedule, the Federal Wage System, the Senior Executive Service, and the Executive Schedule. While the different pay systems and schedules are linked – and, most importantly, are capped by the Executive Schedule – they all cover different groups of employees. Each system and schedule is explained in more detail below. (There are certainly many other pay systems and schedules in the federal government, such as the Foreign Service Schedule, the Non-appropriated Fund Instrumentalities, and the Veterans Health Administration schedule. However, due to space constraints, these schedules and systems will not be covered in this particular publication.)

Locality Pay. As a general rule, federal employees’ pay consists of two primary parts – “base pay” and “locality pay.” While base pay is the same for each grade and step across the country, locality pay varies by geographic location. Thus, while a GS-9, step 5, employee in Kansas City will earn the same base pay as another GS-9, step 5, employee in Boston, the Boston employee will end up earning approximately \$2,043 more annually because of locality pay. Locality pay is, in essence, the federal government’s way of acknowledging that in many geographic areas federal employees are paid less than they would be paid in the private sector for a comparable position, and therefore locality pay is added to make up for part of the difference. Locality pay is not paid to employees overseas, or to those in Hawaii, Alaska or Puerto Rico.

Executive Schedule. The Executive Schedule sets the pay rates for the top federal officials, from the U.S. President, Vice-President, and Cabinet Officers on down to heads and sub-heads of federal agencies. Below the President and Vice-President, the Executive Schedule consists of Levels I through V, with Level I being the highest paid, and Level V being the lowest paid. For the purposes of federal employee pay, the importance of the Executive Schedule is that it serves as a cap on federal employee pay. For example, below federal agency and department heads are a group of employees who are members of the “Senior Executive Service” or “SES.” These employees have their own payband, which is discussed below, but members of the SES are paid no more than Level II of the Executive Schedule (excluding any performance awards). Thus, Level II of the Executive Schedule serves as a “cap” on the amount that members of the SES can receive for pay.

Congressional and federal judicial salaries are also related to the Executive Schedule pay system, with most Members of Congress and federal district court judges receiving Level II pay. (We say “most” because Congressional majority and minority leaders and the Speaker of the House earn more than the Members of Congress and Senators who do not serve in leadership roles.)

In sum, while the Executive Schedule does not directly affect most federal employees’ pay, it does serve as the uppermost limit, or “cap,” on how much they can receive in pay.

Senior Executive Service. The pay system for members of the Senior Executive Service (SES) changed drastically with the November 24, 2003 passage of a performance-based pay system. Previously, members of the SES received both base pay and locality pay. The old SES pay schedule had six grades – ES-1 through ES-6 – and members of the SES could earn no more than Level IV of the Executive Schedule for base pay; Level III of the Executive Schedule for base plus locality pay; and Level I of the Executive Schedule for total compensation. (The Level I cap came into play when a member of the SES was given an allowance or a monetary award, such as a Distinguished Rank Award, which comes with a sizable bonus.)

The new pay-for-performance system was authorized last November as part of the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136, November 24, 2003). It went into effect on the first day of the first pay period beginning on or after January 1, 2004, which for most employees was January 11, 2004.

Under the new system, members of the SES are no longer entitled to locality pay or the automatic, across-the-board pay raises that General Schedule and Executive Schedule employees receive. Instead, SES pay is closely tied to individual and organizational performance. In addition, the old six-level pay system was replaced by a single, open-range “payband” that has only its minimum and maximum rates fixed by statute. For 2004, the payband ranges from a low of \$103,700 to a high of either \$144,600 or \$157,000, depending on whether the agency’s performance appraisal system is certified by the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB).

Senior executives are most likely going to have to wait at least several months before they can qualify for pay raises of more than \$144,600. This is because an agency’s performance appraisal system must be “certified” by both OPM and OMB as “making meaningful distinctions on relative performance.” Agencies granted such certification may pay their SESers total compensation up to the Vice Presidential level (\$201,600 in 2004) for salary, awards, and relocation, recruitment or retention allowances. At the time of publication, however, OPM had not issued any guidelines informing agencies what they need to do to have their performance appraisal system “certified.” Once those certification requirements have been issued, agencies will then need to complete the certification process before their SESers will be eligible to receive a salary in excess of \$144,600.

General Schedule. Most federal employees fall under the “General Schedule” or “GS” pay scale. The General Schedule is the pay scale for professional or “white collar” employees, and is comprised of 15 “grades.” The lowest grade is 1, and the highest is 15. Each grade has 10 “steps.” Employees advance from one grade to another as they are promoted and their responsibilities increase. Employees move to higher steps within their grade level based on the length of their tenure and acceptable job performance. Advancement to either a higher grade or step means an increase in pay.

Because within-grade, or “step,” increases are based in part on an employee’s tenure, there are waiting periods before an employee can move to the next higher step. Before an employee can move to a step 2, 3, or 4, the employee must wait 52 weeks (1 year). To move to a step 5, 6, or 7,

the employee must wait 104 weeks (2 years). And to be advanced to a step 8, 9, or 10, the employee is required to wait 156 weeks (3 years).

Pay raises for the General Schedule are determined annually each year by Congress and the President. Once the pay increase is set by law, the amount is allocated by the President between base pay and locality pay.

Federal Wage System. The Federal Wage System (FWS) covers federal “blue collar” workers. The system was developed to make the pay of these workers comparable to prevailing private sector rates in each local wage area. The regular pay plan covers most trade, craft, and laboring employees in the executive branch. The FWS does not cover Postal Service employees, legislative branch employees, or employees of private sector contracting firms.

For each wage area, OPM identifies a “lead” agency. The “lead” agency is responsible for conducting wage surveys, analyzing data, and issuing wage schedules under the policies and procedures prescribed by OPM. All agencies in a wage area pay their hourly wage employees according to the wage schedules developed by the lead agency. OPM has identified DOD as the lead agency for each local wage area. OPM does not conduct local wage surveys.

Under the FWS, the agency bases federal employee pay on what private industry is paying for comparable levels of work in the local wage area. Employees are paid the full prevailing rate at step 2 of each grade level. Step 5, the highest step in the FWS, is 12 percent above the prevailing rate of pay.

Biweekly Caps On Premium Pay

Be aware that under 5 U.S.C. 5547(a) and 5 CFR 550.105, General Schedule (GS) employees and other covered employees may receive certain types of premium pay for a biweekly pay period only to the extent that the sum of basic pay and premium pay for the pay period does not exceed the **greater** of the **biweekly** rate for (1) GS-15, step 10 (including any applicable special salary rate or locality rate), or (2) level V of the Executive Schedule. (However, in certain emergency or mission critical situations, an agency may apply an annual premium pay cap instead of a biweekly premium pay cap, subject to the conditions provided in law and regulation.)

The biweekly rate is computed by (1) dividing the applicable scheduled annual rate by 2,087 hours, (2) rounding the resulting hourly rate to the nearest cent, and (3) multiplying the hourly rate by 80 hours. For example, in Los Angeles, the GS-15, step 10, scheduled annual locality rate of \$133,209 divided by 2,087 hours yields an hourly rate of \$63.83 and a biweekly rate of \$5,106.40 (\$63.83 x 80 hours). Similarly, the Executive Level V annual rate of \$127,300 divided by 2,087 hours yields an hourly rate of \$61.00 and a biweekly rate of \$4,880.00 (\$61.00 x 80 hours).

To see the biweekly premium pay caps for 2004 by locality pay area, click on <http://www.opm.gov/oca/pay/HTML/04GSCap.asp>. These caps went into effect as of the first pay period beginning on or after January 1, 2004.

Additional Kinds of Pay and Compensation

Administratively Uncontrollable Overtime Pay

The head of an agency may approve administratively uncontrollable overtime (AUO) pay for an employee who occupies a position that requires substantial amounts of irregular, unscheduled overtime work that cannot be controlled administratively, with the employee generally being responsible for recognizing, without supervision, circumstances that require the employee to remain on duty.

AUO pay is a substitute form of payment for irregular, unscheduled overtime work and is paid on an annual basis instead of on an hourly basis. Agencies may not pay AUO pay to a prevailing rate (wage) employee, a member of the United States Park Police or the United States Secret Service Uniformed Division, a member of the Senior Executive Service, or a member of the Federal Bureau of Investigation or Drug Enforcement Administration Senior Executive Service.

AUO pay is determined as a percentage, not less than 10 percent nor more than 25 percent, of an employee's rate of basic pay fixed by law or administrative action for the position held by the employee, including any applicable special pay adjustment for law enforcement officers under section 404 of the Federal Employees Pay Comparability Act of 1990 (Pub. L. 101-509), locality-based comparability payment under 5 U.S.C. 5304, or continued rate adjustment under subpart G of 5 CFR part 531, before any deductions and exclusive of additional pay of any other kind.

Under OPM regulations, the rate of AUO pay that is authorized for a position is based on the average number of hours of irregular or occasional overtime work performed per week. For example, a 25 percent rate is authorized for a position that requires an average of over 9 hours per week of irregular or occasional overtime work. Agency reviews of the percentage of AUO pay paid to employees must be conducted "at appropriate intervals" and OPM recommends that such reviews be completed every 3 to 6 months by federal agencies. If the results of these reviews indicate that the employee is not receiving AUO pay in accordance with the law and regulations, the percentage of annual premium pay must be revised or, if appropriate, AUO pay must be discontinued.

Note that effective March 3, 2003, OPM implemented a final rule to permit agencies to pay AUO pay to an employee during a temporary assignment that would not otherwise warrant the payment of AUO pay, if the temporary assignment is directly related to a national emergency declared by the President. An agency may continue to pay premium pay under for not more than 30 consecutive work days for such a temporary assignment and for a total of not more than 90 work days in a calendar year while on such a temporary assignment.

Call-Back Overtime

Call-back overtime applies to General Schedule, FP, and Federal Wage System exempt and non-exempt employees. Call-back overtime work is irregular or occasional overtime work performed by an employee on a day when no work is scheduled or at a time which requires the employee to return to the place of employment from an off-duty status. Call-back overtime work is deemed to be not less than 2 hours in duration for pay or compensatory time purposes. Thus, if an employee

is called back for overtime work for a half-hour, the employee must receive 2 hours worth of call-back overtime pay. If a single call-back involves the employee for more than two hours and the time is continuous, the employee must be compensated for actual time.

An employee who is called back more than once during the same two-hour period is entitled to call-back overtime pay for each time called back. Call-back overtime pay is not conditioned on the actual performance of duty.

By definition, call-back overtime provisions do not apply to work performed by the employee when the employee works at a place of residence, when an employee lives and works on a vessel, or when the employee lives on the premises of a duty station, e.g., a remote radar site. An employee who corrects system problems by computer modem without returning to the workplace is not eligible for call-back pay. However, such employees may be eligible for overtime if they have been authorized to perform work at or from their residence. Overtime pay for these employees will be based on actual time spent in unscheduled overtime work, provided the work is substantial in nature (at least eight minutes), and approved procedures have been followed for verifying the time and performance of work.

Call-back on a holiday. Employees who, on a holiday, are called back to work are entitled to at least two hours pay at the holiday premium pay rate. Compensatory time off is not allowed in lieu of pay for holiday call-back. The holiday rate is payable for all call-back hours which correspond to nonovertime hours of the employee's regular daily tour up to 8, except that an employee on a compressed work schedule may be paid call-back not to exceed the nonovertime hours of his or her tour.

An employee who is called back on a holiday would seem to have a dual pay entitlement, i.e., under 5 U.S.C. 5546 (two hours holiday call-back) and 5 U.S.C. 5542 (two hours regular call-back). However, for pay purposes, the entitlements are said to be coextensive, i.e., the employee's minimum entitlement (ME) is limited to two hours, not four, when call-back is performed on a holiday and the entire period of call-back does not exceed two hours.

If the entire period corresponds to nonovertime hours, the employee will be paid at the holiday rate only. If the call-back period comprises nonovertime and overtime, the nonovertime hours will be paid at the holiday rate and the overtime period at the overtime rate.

Compensatory Time Off

Compensatory time off is time off with pay in lieu of overtime pay for irregular or occasional overtime work, **or** when permitted under agency flexible work schedule programs, time off with pay in lieu of overtime pay for regularly scheduled or irregular or occasional overtime work.

Compensatory time off may be approved in lieu of overtime pay for irregular or occasional overtime work for both FLSA exempt and nonexempt employees. Compensatory time off can also be approved for a "prevailing rate employee," but there is no authority to require that any prevailing rate (wage) employee be compensated for irregular or occasional overtime work by granting compensatory time off.

Agencies may require that an FLSA exempt employee receive compensatory time off in lieu of overtime pay for irregular or occasional overtime work, but only for an FLSA exempt employee whose rate of basic pay is above the rate for GS-10, step 10. No mandatory compensatory time off is permitted for wage employees or in lieu of FLSA overtime pay.

Compensatory time off may be approved (not required) in lieu of regularly scheduled overtime work only for employees, including wage employees, who are ordered to work overtime hours under flexible work schedules.

An agency may set time limits for an FLSA exempt or nonexempt employee to take compensatory time off. An agency may provide that an FLSA exempt employee who earns compensatory time off will lose entitlement to both compensatory time off and overtime pay if it is not used within agency time limits, unless the failure was due to an exigency of the service beyond the employee's control.

If compensatory time off is not taken by an FLSA nonexempt employee within agency time limits, an agency must pay the employee for overtime work at the overtime rate in effect during the pay period in which the overtime work was completed. One hour of compensatory time off is granted for each hour of overtime work.

Environmental Differential Pay

Environmental differential pay applies only to Federal Wage System (FWS) employees. This type of pay is paid to FWS employees who are exposed to job-related hazards, physical hardships, or unusually severe working conditions. The list of hazards and hardships for which an employee may receive environmental differential pay can be found in Appendix A of 5 CFR section 532.

The amount of environmental differential pay that can be paid to an employee is determined by multiplying the rate authorized in Appendix A for the described exposure by the rate for WG-10, step 2 for the appropriated fund employees and NA-10 for the non-appropriated fund employees, on the current regular nonsupervisory wage schedule for the wage area for which the differential is payable. One-half cent or over shall count as a full cent. The resulting cents-an-hour amount shall be paid uniformly to each eligible FWS employee, regardless of the grade level of the employee or the FWS wage schedule on which the employee is paid.

Whether environmental differential is paid on the basis of all hours in a pay status or on the basis of actual exposure depends on the hazard, physical hardship or working condition as listed in Appendix A. An employee who is entitled to environmental differential for all hours in a pay status shall be paid for all hours in a pay status on the day of exposure.

An employee who is entitled to environmental differential on an actual exposure basis shall be paid not less than one hour's differential pay for the exposure. For exposure beyond one hour, the employee will be paid in increments of one-quarter hour with less than 15 minutes rounded up to a quarter hour. However, environmental differential for such intermittent exposures may not exceed the number of hours of active duty by the employee on the day of exposure.

An employee may not be paid more than one environmental differential for a period of work. Payment shall be based on the higher of the two differentials authorized.

When an employee is eligible for environmental differential pay which is payable on a shift basis, and, on the same day, is eligible for environmental differential on an actual exposure basis at a higher rate, he or she must be paid environmental differential on the basis of actual exposure for that exposure, and environmental differential on the basis of the shift for the remaining hours in the pay status that day.

Relationship to other pay. Environmental differential is included as part of the employee's basic rate of pay and must be used to compute premium pay for overtime, holiday, or Sunday work, the amount from which retirement deductions are made, and the amount on which group life insurance is based.

Effect of environmental differential pay on lump sum leave payment and severance pay. Environmental differential pay is not part of basic pay for purposes of lump-sum annual leave payments and severance pay. Its loss is not an adverse action.

Evacuation Payments

Evacuation payments are made to employees or their dependents, or both, who are ordered to be evacuated from or within the United States and certain non-foreign areas in the national interest because of natural disasters or for military or other reasons that create imminent danger to the lives of the employees, their immediate family, or their dependents. The applicable non-foreign areas are listed in the definition of "United States area" in 5 CFR 550.402. Evacuation payments may be made to dependents 16 years of age or older, or to designated representatives, only with prior written authorization from the employee.

Note: This summary does not include information about evacuation payments for employees in foreign areas, which are paid under Chapter 600 of the Department of State Standardized Regulations (Government Civilians, Foreign Areas).

When an employee has been ordered to evacuate, agency heads may make advance payments of pay, allowances, and differentials to cover a time period of up to 30 calendar days, provided the agency head or designated official determines the payment is required to defray immediate expenses incidental to the evacuation. The initial evacuation payment may cover up to 60 days of pay, allowances, and differentials, including the period covered by the advance payment.

Evacuation payments may be made to cover a total of up to 180 calendar days (including the number of days for which payment has already been made) when employees continue to be prevented from performing their duties by an evacuation order. When feasible, evacuation payments must be paid on the employee's regular pay days.

Employees in an Executive agency may also receive additional allowance payments for travel expenses and subsistence expenses (i.e., per diem) to offset added expenses they incur as a result of their evacuation or the evacuation of their dependents.

Agencies must make all deductions from advance payments or evacuation payments that are authorized by law, including retirement or Social Security (FICA) deductions, authorized allotments, and Federal income tax withholdings.

Not later than 180 days after the effective date of the order to evacuate, or when the emergency or evacuation is terminated, whichever is earlier, an employee must be returned to his or her regular duty station or reassigned to another duty station.

Hazardous Duty Pay

Hazardous duty pay is additional pay for the performance of hazardous duty or duty involving physical hardship. General Schedule (GS) employees receive hazardous duty pay if their job duties cause extreme physical discomfort or distress, which is not adequately alleviated by protective or mechanical devices. For example, duty that involves exposure to extreme temperatures for a long period of time, arduous physical exertion, or exposure to fumes, dust, or noise that causes nausea, skin, eye, ear, or nose irritation will require that an agency provide hazardous duty pay. Hazardous duty pay is similar to environmental differential pay. However, hazardous duty pay applies to GS employees, while environmental differential pay applies to FWS employees.

“Hazardous duty” means duty performed under circumstances in which an accident could result in serious injury or death, such as duty performed on a high structure where protective facilities are not used or on an open structure where adverse conditions such as darkness, lightning, steady rain, or high wind speeds exist. “Hazard pay differential” means additional pay for the performance of hazardous duty or duty involving physical hardship.

To review the hazard pay differentials schedule, see Appendix A of 5 CFR part 550, subpart I. Note that hazardous duty pay may not be paid for hours of work for which an employee receives annual premium pay (for regularly scheduled standby duty or administratively uncontrollable overtime work), or a criminal investigator receives availability pay.

Unauthorized Performance of Hazardous Duties. Hazardous duty pay may be paid only to employees who are assigned hazardous duties or duties involving physical hardship for which a differential is authorized. It may not be paid to an employee who undertakes to perform a hazardous duty on his or her own, without proper authorization.

Maximum Amount of Hazardous Duty Pay an Employee May Receive. An employee may receive no more than 25 percent of his or her rate of basic pay. However, employees do not receive this kind of pay just for the actual hours that they are performing hazardous duties. When an employee performs a duty for which a hazard pay differential is authorized, the agency must pay the hazard pay differential for all of the hours in which the employee is in a pay status on the day on which the duty is performed.

Hazardous Duty Pay During Overtime Hours. Employees may receive hazardous duty pay during overtime hours because the employee is in a pay status during overtime hours. However, the hazardous duty pay is computed on the employee’s hourly rate of basic pay, not his or her hourly overtime rate.

Hazardous Duty Pay During Hours of Paid Leave. Hazardous duty pay may be paid during hours of paid leave if a hazardous duty is performed on a day on which paid leave is taken. For example, if an employee performs a hazardous duty for 1 hour and then takes annual leave for the 7 hours remaining in his or her workday, the employee is paid hazardous duty pay for the entire 8-hour workday.

Hazardous Duty Pay During Periods of Leave Without Pay. Hazardous duty pay cannot be paid during periods of leave without pay. It may only be paid while an employee is in a pay status.

Subject to the Aggregate Limitation on Pay. Hazardous duty pay is included in the aggregate limitation on pay, which limits an employee's aggregate compensation to the rate payable for level I of the Executive Schedule at the end of a calendar year.

Holiday Premium Pay

For each hour of holiday work, employees receive holiday premium pay. Holiday premium pay is equal to an employee's rate of basic pay. Employees who are required to work on a holiday receive their rate of basic pay, plus holiday premium pay, for each hour of holiday work. Employees who are required to perform any work during basic (nonovertime) holiday hours are entitled to a minimum of 2 hours of holiday premium pay.

Standard (40 Hours/5 Days Per Week) Work Schedules. Employees are entitled to holiday premium pay if they are required to work on a holiday during their regularly scheduled nonovertime basic tours of duty, not to exceed 8 hours.

Flexible Work Schedules. Employees under flexible work schedules are entitled to holiday premium pay if they are required to work during the hours of their "basic work requirement" (i.e., nonovertime hours) on that day, not to exceed 8 hours. In the event the President issues an Executive Order granting a "half-day" holiday, part-time employees on a flexible work schedule are entitled to holiday premium pay if they are required to work during the last half of their "basic work requirement" (i.e., nonovertime hours) on that day, not to exceed 4 hours.

Compressed Work Schedules. Employees under compressed work schedules are entitled to holiday premium pay if they are required to work during their "basic work requirement" on that day. The number of hours of holiday premium pay may not exceed the hours in an employee's compressed work schedule for that day (e.g., 8, 9, or 10 nonovertime hours). In the event the President issues an Executive Order granting a "half-day" holiday, part-time employees on a compressed work schedule are entitled to holiday premium pay if they are required to work during the last half of their "basic work requirement" (i.e., nonovertime hours) on that day.

Part-time employees do not receive holiday premium pay for working on an "in lieu of" holiday for full-time employees.

Law Enforcement Availability Pay

Availability pay is a type of premium pay that is paid to Federal law enforcement officers (LEO's) who are criminal investigators. Due to the nature of their work, criminal investigators are required to work, or be available to work, substantial amounts of "unscheduled duty."

Availability pay is generally an entitlement that an agency must provide if the required conditions are met, but is optional in Offices of Inspectors General that employ fewer than five criminal investigators.

Eligibility for availability pay is limited to criminal investigators who are properly classified in the GS-1811 (Criminal Investigations) and GS-1812 (Game Law Enforcement) series under Office of Personnel Management standards and to pilots employed by the U.S. Customs Service. Availability pay will be extended to Special Agents in the Diplomatic Security Service when implementing regulations are effective. Employees in these groups must also meet the definition of “law enforcement officer” in 5 U.S.C. 5541(3) and 5 CFR 550.103, which generally requires that the employee be covered under the early retirement provisions for LEO’s. However, a criminal investigator is also entitled to availability pay if he or she holds a supervisory or administrative position that has been officially approved as a “secondary position” under the LEO retirement provisions, even if the criminal investigator is not personally covered by those provisions.

By law, availability pay is fixed at 25 percent of a criminal investigator’s rate of basic pay. However, the biweekly maximum earnings limitation for LEO’s in 5 U.S.C. 5547 applies, which states that premium pay may be paid only to the extent that the payment does not cause the aggregate of basic pay and such premium pay for any pay period to exceed the greater of (1) the maximum rate of basic pay payable for GS-15 (including any applicable locality-based comparability payment and any applicable special rate of pay), or (2) the rate payable for level V of the Executive Schedule.

“Unscheduled duty” consists of those hours when a criminal investigator performs work, or is determined by the agency to be available to perform work, that are not part of the criminal investigator’s basic 40-hour workweek and are not regularly scheduled overtime hours, excluding the first 2 hours of overtime work on a basic workday. (See exception in 5 U.S.C. 5542(e) for employees who perform protective duties.) However, Special Agents in the Diplomatic Security Service may not be credited with hours of availability pay.

Annual Certification. Each criminal investigator and the designated supervisory officer shall make an initial, and thereafter, annual certification to the head of the agency attesting that the investigator (1) currently meets the “substantial hours requirement” (unless it is the initial certification) and (2) is expected to meet the requirement during the upcoming 1-year period. A criminal investigator is eligible for availability pay only if he or she has an annual average of 2 or more hours of unscheduled duty per regular workday. Availability hours (nonwork) on days that are not “regular workdays” cannot be credited for this determination.

A “regular workday” includes each day in the criminal investigator’s basic workweek in which the criminal investigator completes at least 4 hours of work. Hours that do not count include overtime hours, unscheduled duty hours, hours when the employee is traveling outside the official duty station, hours of approved leave, holiday hours, and hours of excused absence.

An agency may not pay a criminal investigator receiving availability pay--

(1) annual premium pay for administratively uncontrollable overtime (AUO) work or regularly scheduled standby duty, or (2) overtime pay under the Fair Labor Standards Act. Receipt of availability pay does not affect a criminal investigator's entitlement to other types of premium pay (including title 5 overtime pay) based on regularly scheduled duty hours. However, a criminal investigator receiving availability pay may not be paid any other premium pay based on unscheduled duty hours.

For employees receiving availability pay, title 5 overtime pay is authorized only for overtime work scheduled in advance of the administrative workweek that is either in excess of 10 hours on a day containing part of the basic 40-hour workweek or on a day that does not include part of the basic 40-hour workweek. (Again, see the exception in 5 U.S.C. 5542(e) for employees who perform protective duties.)

An employing agency may deny or cancel a certification for availability pay if a criminal investigator has failed to perform unscheduled duty as assigned or reported. However, the agency must follow adverse action procedures.

Night Pay

Night pay is a 10 percent differential paid to an employee for regularly scheduled work performed at night. Employees who perform night work are entitled to pay for that work at their basic rate of pay plus a night pay differential amounting to 10 percent of their rate of basic pay.

An individual who meets the definition of "employee" in 5 U.S.C. 5541(2) is covered by the night pay provisions, including employees under the General Schedule. Prevailing rate (wage) employees are covered by a separate night shift differential authority.

Night pay is paid for regularly scheduled work performed at night. This generally means work scheduled before the beginning of the administrative workweek. However, night pay is also paid for night work on a temporary assignment to a different daily tour of duty during the administrative workweek.

Generally, night work must be performed between the hours of 6 p.m. and 6 a.m., including night work under a compressed work schedule. For posts located outside the United States, the head of an agency may designate a time after 6 p.m. and before 6 a.m. as the beginning and end, respectively, of night work to accommodate the customary hours of business in the locality. Night pay is paid in addition to overtime, Sunday, or holiday premium pay. Night pay is not basic pay for any purpose. An employee is entitled to night pay for paid leave only when the total amount of paid leave during a biweekly pay period is less than 8 hours. An employee is entitled to night pay when excused from night work on a holiday or another non-workday (this does not apply to alternative work schedule non-workdays).

Flexible Work Schedules. If a flexible work schedule includes 8 or more hours available for work between 6 a.m. and 6 p.m., the employee is not entitled to night pay for voluntarily working flexible hours between 6 p.m. and 6 a.m., including while earning credit hours.

An employee is entitled to night pay for those hours that must be worked between 6 p.m. and 6 a.m. to complete an 8-hour daily tour of duty.

An employee is entitled to night pay for any non-overtime work performed between 6 p.m. and 6 a.m. during designated core hours.

Computation Rules. The following rules apply to computing a night pay differential:

Multiply 10 percent times the employee's rate of basic pay (includes special rates of pay).

Include the following geographic payments in basic pay for this computation:

- locality-based comparability payments,
- special pay adjustments for law enforcement officers, and
- continued rates of pay.

Nonforeign Area Cost-of-Living Allowances (COLAs)

The U.S. Government pays cost-of-living allowances (COLAs) to white-collar civilian Federal employees in Alaska, Hawaii, Guam and the Commonwealth of the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. Approximately 44,000 employees, including U.S. Postal Service employees, receive these nonforeign area COLAs. Section 5941 of title 5, United States Code, and Executive Order 10000 (as amended) authorize the payment of COLAs in nonforeign areas.

To set the COLA rates, OPM surveys the prices of over 200 items, including goods and services, housing, transportation, and miscellaneous expenses. OPM conducts these surveys in each of the allowance areas and in the Washington, D.C. area. By law, COLAs are limited to a maximum of 25% of basic pay. COLAs are exempt from Federal income tax, but may be subject to State and local taxes. They do not count for federal retirement purposes.

Overtime Pay

As a general rule, federal employees receive overtime pay for hours of work officially ordered or approved in excess of 8 hours in a day, or 40 hours in an administrative workweek. Employees who work full-time, part-time, or intermittent tours of duty are eligible for overtime pay. For federal employees, the legal authorization for overtime pay usually comes from one of two sources – the Fair Labor Standards Act or Title 5 of the U.S. Code.

The Fair Labor Standards Act of 1938, as amended (commonly referred to as “the Act” or “FLSA”), is published in law in sections 201-219 of title 29, U.S. Code. The Act provides for minimum standards for both wages and overtime entitlement, and spells out administrative procedures by which covered worktime must be compensated. In addition, the Act exempts specified employees or groups of employees from the application of certain of its provisions.

The Fair Labor Standards Act began applying to employees of the United States Federal Government in 1974. Section 3(e)(2) of the Act authorizes the provisions of the Act to be applied to any person employed by the Government of the United States, as specified in that section.

It is important to understand that the FLSA distinguishes between “exempt” and “nonexempt” employees. “Exempt” employees tend to be “white collar” workers, such as professional and managerial employees. These types of employees are called “exempt” because they are exempted from the minimum wage and overtime provisions of the FLSA. “Nonexempt” employees tend to be “blue collar” workers. Nonexempt employees are not exempt from the minimum wage and overtime provisions of the FLSA – they are covered by the FLSA.

Calculating overtime for FLSA nonexempt employees

Overtime pay for non-exempt employees is computed under the Fair Labor Standards Act (FLSA), subject to some special rules for Federal employees. Under the FLSA, overtime pay is determined by multiplying the employee’s “straight time rate of pay” by all overtime hours worked PLUS one-half of the employee’s “hourly regular rate of pay” times all overtime hours worked. All overtime work that is ordered or approved or “suffered or permitted” must be compensated.

Include a special salary rate, locality rate of pay, special law enforcement adjusted rate of pay, or interim geographic adjustment continued rate of pay in “total remuneration” and “straight time rate of pay” when computing overtime pay under the FLSA. Compute the “hourly regular rate” by dividing the “total remuneration” paid to an employee in the workweek by the number of hours in the workweek for which such compensation is paid.

Note that the limitation on an hourly rate of overtime pay under title 5, United States Code, does **not** apply to overtime pay under the FLSA. Also, the maximum biweekly or annual earnings limitations on title 5 premium pay do **not** apply to FLSA overtime pay.

To compute overtime pay, multiply the straight time rate of pay by all overtime hours worked PLUS one-half of the employee’s hourly regular rate of pay times all overtime hours worked.

Calculating overtime for FLSA-exempt employees

Most federal employees who are exempt under the FLSA can still receive overtime pay – but they receive it under Title 5 of the U.S. Code, not under the FLSA. Be aware that the overtime rules for FLSA-exempt employees changed in November 2003. The new rule, which went into effect on November 24, 2003, is as follows.

For FLSA-exempt employees who are entitled to receive overtime pay under 5 U.S.C. 5542(a)(2), the hourly rate of overtime pay is the **greater** of (1) one and one-half times the minimum hourly rate of basic pay for GS-10 (including any applicable special salary rate, locality rate of pay, or special pay adjustment for law enforcement officers), **or** (2) the employee’s own hourly rate of basic pay (including any applicable special salary rate, locality rate of pay, or special pay adjustment for law enforcement officers).

OPM says that it will amend its regulations to reflect this new provision in the near future. However, federal agencies are responsible for ensuring proper payments as of November 24, 2003, and have been instructed by OPM not to wait for revised regulations to begin making these payments.

Standby Duty Pay

An agency may pay standby duty pay, instead of the premium pay for regularly scheduled overtime, night, holiday, and Sunday work, to an employee in a position requiring him or her regularly to remain at, or within the confines of, his or her station longer than 40 hours per week, a substantial part of which consists of remaining in a standby status rather than performing work. Standby duty pay can be up to 25 percent of the employee's rate of basic pay that does not exceed the rate of pay for GS-10, step 1 (including any applicable locality pay).

Sunday Pay

A full-time employee is entitled to 25 percent of his or her rate of basic pay for work performed during a regularly scheduled basic 8-hour tour of duty that begins or ends on a Sunday. Sunday premium pay is not paid for overtime hours of work.

Employee Coverage. A full-time employee, as defined in 5 U.S.C. 5541(2), is entitled to Sunday premium pay. This definition includes General Schedule employees and certain other white-collar civilian federal employees. Prevailing rate (wage) employees are entitled to Sunday premium pay under 5 U.S.C. 5544(a). Part-time employees are not entitled to Sunday premium pay.

Entitlement. An employee is entitled to his or her rate of basic pay plus Sunday premium pay for up to 8 non-overtime hours of work during each regularly scheduled basic tour of duty that begins or ends on Sunday. Sunday premium pay is equal to 25 percent of an employee's rate of basic pay.

Flexible Work Schedule - A full-time employee under a flexible work schedule is entitled to Sunday premium pay for up to 8 hours of his or her basic work requirement based on electing to work flexible hours during a basic tour of duty that begins or ends on Sunday. However, an agency may preclude employees from working flexible hours during a basic tour of duty that begins or ends on Sunday. Employees may not earn Sunday premium pay when they earn or use credit hours.

Compressed Work Schedule - An employee under a compressed work schedule is entitled to Sunday premium pay for all non-overtime hours the employee works during each regularly scheduled basic tour of duty that begins or ends on Sunday.

Two Tours Of Duty on Sunday. When a full time employee has two separate basic tours of duty on Sunday, he or she is entitled to Sunday premium pay for performing work during each tour of duty. For example, if an employee works 8 hours during a basic tour of duty that begins on Saturday and ends on Sunday, and also works 8 hours during a basic tour of duty that begins on the same Sunday and ends on Monday, the employee is entitled to 16 hours of Sunday premium pay.

Relationship to Overtime Pay. An employee under a standard work schedule is entitled to overtime pay for hours of work on Sunday that are in excess of 8 hours in a day or 40 hours in a week.

Flexible Work Schedule - An employee whose flexible work schedule includes work on Sunday is entitled to overtime pay for hours of work in excess of 8 hours in a day or 40 hours in a week and which are officially ordered in advance. This does not include any flexible hours of work applicable to the employee's basic work requirement.

Compressed Work Schedule - An employee whose compressed work schedule includes work on Sunday is entitled to overtime pay for hours of work in excess of the employee's compressed work schedule on that day.

Relationship to GS Night Pay. When an employee has a regularly scheduled basic tour of duty that begins or ends on Sunday and includes night work (between 6 p.m. and 6 a.m. for GS employees), the employee is entitled to night pay in addition to Sunday premium pay for work during night hours of the Sunday tour of duty. This applies to standard, flexible, and compressed work schedules. (However, see the exception below.)

Flexible Work Schedule - If a flexible tour of duty includes 8 or more hours available for work during daytime hours (i.e., between 6 a.m. and 6 p.m.), an employee is not entitled to night pay even though he or she voluntarily elects to work flexible hours at night.

Relationship to Holiday Premium Pay. When an employee has a regularly scheduled basic tour of duty that begins on Sunday and Sunday is a holiday, the employee is entitled to holiday premium pay and Sunday premium pay for up to 8 hours of work during that basic tour of duty. This applies to standard and flexible work schedules.

Compressed Work Schedule - A Sunday or holiday tour of duty is not limited to 8 hours for an employee under a compressed work schedule.

No Compounding of Premium Pay. Each separate entitlement to premium pay is computed separately as a Premium Pay percentage of an employee's rate of basic pay. No compounding occurs if an employee is entitled to more than one type of premium pay for the same hour of work.

Paid Leave, Excused Absence, and Holidays on Sunday. Full-time employees who are regularly scheduled to work non-overtime hours on Sunday, but do not work during their Sunday tour of duty because they are on paid leave or excused absence, because they are using compensatory time off or credit hours, or because Sunday is a holiday, are not entitled to Sunday premium pay. Sunday premium pay may be paid only for periods when an employee performs work on Sunday.

Payment for Actual Work. Sunday premium pay is paid for any actual work performed during an employee's Sunday tour of duty. For example, if an employee's Sunday tour of duty is from 8 p.m. on Sunday until 4 a.m. on Monday and the employee is granted annual leave from 8 p.m. until 11 p.m., the employee is entitled to Sunday premium pay for 5 hours for working between 11 p.m. and 4 a.m.

Superseded Regulation. The regulation at 5 CFR 550.171(a) has been superseded by the appropriations restrictions limiting payment of Sunday premium pay to hours when employees

actually perform work. Employees may not be paid Sunday premium pay for hours when they are in a leave, excused absence, or holiday status.

First-40 Tours of Duty. Since work under a first-40 tour of duty is regularly scheduled work, an employee under a first-40 tour of duty is entitled to up to 8 hours of Sunday premium pay when the employee performs non-overtime work on Sunday.

Recruitment Bonuses, Relocation Bonuses And Retention Allowances

Recruitment Bonuses

An agency may pay a lump-sum recruitment bonus of up to 25 percent of the annual rate of basic pay to an employee newly appointed to a difficult-to-fill position.

Covered Positions. Recruitment bonuses may be paid to eligible individuals who are appointed to a General Schedule (GS) position or to another type of position for which such payments have been approved by OPM. By regulation, OPM has approved coverage of certain positions, including prevailing rate (wage), senior-level and scientific or professional (SL/ST), Senior Executive Service (SES), and Executive Schedule positions (except agency heads). OPM approves other categories upon written request from the head of the employing agency.

Qualifying Appointments. Recruitment bonuses may be paid to an employee who is “newly appointed” to the federal government, including an employee reappointed with a 90-day break in service. An individual who receives a temporary appointment may be eligible as long as the appointment lasts at least 6 months. (See “Service Agreement,” below.)

Service Agreement. Before receiving a recruitment bonus, an employee must sign a written agreement to complete a specified period of employment with the agency. The minimum allowed service period is 6 months.

Agency Plan. Before paying a recruitment bonus, an agency must establish a plan that designates the officials with authority to review and approve payment of recruitment bonuses. The plan must include criteria to be met or considered in authorizing bonuses (including the amount of a bonus), procedures for paying bonuses, requirements for service agreements, and documentation and recordkeeping requirements.

Criteria for Approving Bonus. Before the employee enters on duty, the agency must determine in writing that, in the absence of the bonus, the agency would encounter difficulty in filling the position. The agency must consider the following, as applicable: the success of recent efforts to recruit candidates for similar positions, recent turnover in similar positions, labor-market factors, special qualifications needed in the position, and the practicality of using the superior qualifications appointment authority alone or in combination with a recruitment bonus.

Groups of Employees. An agency may target groups of positions that have been difficult to fill in the past or that are likely to be difficult to fill in the future, and may make the required written determination to offer a recruitment bonus on a group basis.

Approval Level. A recruitment bonus must be approved by an agency official who is at a higher level than the official who recommended the bonus, unless there is no official at a higher level. To make a timely offer of employment, a higher level official may establish specific criteria to allow the recommending official to offer a recruitment bonus without further review or approval.

Payment. A recruitment bonus must be calculated as a percentage of the employee's starting annual rate of basic pay (excluding locality pay) at the time of appointment, not to exceed 25 percent. The bonus is paid in a lump sum. A bonus may be paid to an individual not yet employed who has received a written offer of employment and signed a written service agreement.

Basic Pay. A recruitment bonus is not considered part of an employee's rate of basic pay for any purpose.

Repayment. If an employee fails to complete the agreed-upon service period, he or she must repay the portion of the bonus attributable to the uncompleted period. Exception: No repayment is required if the employee is involuntarily separated (for reasons other than misconduct or delinquency).

Relocation Bonuses

An agency may pay a lump-sum relocation bonus of up to 25 percent of the annual rate of basic pay to an employee who must relocate to accept a difficult-to-fill position in a different commuting area.

Covered Positions. Relocation bonuses may be paid to eligible employees who are serving in a General Schedule (GS) position or in another type of position for which such payments have been approved by OPM. By regulation, OPM has approved coverage of certain positions, including prevailing rate (wage), senior-level and scientific or professional (SL/ST), Senior Executive Service (SES), and Executive Schedule positions (excluding agency heads). OPM approves other categories upon written request from the head of the employing agency.

Employee Coverage. Only current employees serving in covered positions may receive a relocation bonus. Newly appointed employees are not eligible.

Service Agreement. Before receiving a relocation bonus, an employee must sign a written agreement to complete a specified period of employment with the agency. There is no minimum service period required by OPM regulations; however, agencies may establish a minimum period under their relocation bonus plans.

Agency Plan. Before paying a relocation bonus, an agency must establish a plan that designates the officials with authority to review and approve payment of relocation bonuses. The plan must include criteria to be met or considered in authorizing bonuses (including the amount of a bonus), procedures for paying bonuses, requirements for service agreements, and documentation and recordkeeping requirements.

Criteria for Approving Bonus. Before the employee enters on duty in the position to which he or she is being relocated, the agency must determine in writing that, in absence of the bonus, the agency would encounter difficulty in filling the position. The agency must consider the following, as applicable: the success of recent efforts to recruit candidates for similar positions, recent turnover in similar positions, labor-market factors, and special qualifications needed in the position. *Important:* Approval of the bonus is contingent on the employee's changing his or her place of residence in conjunction with acceptance of a position in a different commuting area.

Case-by-Case Determinations. Agency determinations to pay a relocation bonus normally must be made on a case-by-case basis. However, it is appropriate for an agency to identify groups of positions that have been difficult to fill in the past or that may be difficult to fill in the future, and to use a group-targeted approach in identifying candidates for bonuses.

Groups of Employees. Under certain conditions, an agency may waive the case-by-case approval requirement for employees with a rating of at least "Fully Successful" (or equivalent) - for example, when these employees are part of a major organizational unit that is being relocated to a different commuting area. (Note: These groups must be approved using the same criteria that apply to individuals.)

Approval Level. A relocation bonus must be approved by an official of the agency who is at a higher level than the official who recommended the bonus, unless there is no official at a higher level.

Payment. A relocation bonus must be calculated as a percentage of the initial annual rate of basic pay (excluding locality pay) for the employee's new position, not to exceed 25 percent. The bonus is paid in a lump sum. The agency may not pay the relocation bonus until the employee establishes a residence in the new commuting area.

Law Enforcement Officers. An agency may pay a relocation bonus of up to the greater of \$15,000 or 25 percent of basic pay to a law enforcement officer paid under the General Schedule.

Basic Pay. A relocation bonus is not considered part of an employee's rate of basic pay for any purpose.

Repayment. If an employee fails to complete the agreed-upon service period, he or she must repay the portion of the relocation bonus attributable to the uncompleted period of service. Exception: No repayment is required if the employee is involuntarily separated (for reasons other than misconduct or delinquency), or if the employee is involuntarily relocated to a different commuting area.

Retention Allowances

An agency may pay a retention allowance of up to 25 percent of basic pay to an employee if the unusually high or unique qualifications of the employee or a special need of the agency for the employee's services makes it essential to retain the employee, and the agency determines that the employee would be likely to leave the federal service without the allowance.

Position Coverage. Retention allowances may be paid to current Federal employees holding a General Schedule (GS) position or another type of position for which such payments have been approved by OPM. By regulation, OPM has approved coverage of certain positions, including prevailing rate (wage), senior-level and scientific or professional (SL/ST), Senior Executive Service (SES), and Executive Schedule positions (except agency heads). OPM approves other categories upon written request from the head of the employing agency.

Agency Plan. Before paying a retention allowance, an agency must establish a plan that designates the officials with authority to review and approve payment of allowances. The plan must include criteria to be met or considered in authorizing allowances (including the amount of an allowance), procedures for paying allowances, and documentation and recordkeeping requirements.

Approval Criteria. Before paying a retention allowance, an agency must determine that-

- the unusually high or unique qualifications of the employee or a special need for the employee's services makes it essential to retain the employee; and
- the employee would be likely to leave the federal service (for any purpose) in the absence of the allowance.

The agency must document the basis for this determination in writing. It must address the extent to which the employee's departure would affect the agency's ability to carry out an activity or perform a function that is essential to the agency's mission. It should also address the success of recent efforts to recruit candidates with similar qualifications and the availability of candidates in the labor market, as applicable.

Groups of Employees. An agency may pay a retention allowance of up to 10 percent of basic pay (or up to 25 percent with OPM approval) to a group or category of employees.

Payment. A retention allowance must be calculated as a percentage of the employee's rate of basic pay (excluding any locality payment), not to exceed 25 percent. It is paid at the same time as the employee's regular paycheck (usually biweekly).

An agency may not begin paying a retention allowance during the service period established by the employee's recruitment or relocation bonus service agreement. However, a relocation bonus may be paid to an employee already receiving a retention allowance.

Annual Review. Agencies must review each retention allowance authorization at least annually to determine whether payment is still warranted.

Reduction or Termination of a Retention Allowance. An agency may continue payment of a retention allowance as long as the conditions giving rise to the original determination to pay the allowance still exist. An agency may reduce or terminate an allowance if, for example, a lesser amount would be sufficient to retain the employee, the agency no longer needs the employee's services, or for budget considerations.

Basic Pay. A retention allowance is not considered part of an employee's rate of basic pay for any purpose.

Aggregate Pay Limitation. An agency may not authorize or continue a retention allowance if the allowance would cause the employee's projected aggregate compensation in a calendar year to exceed the rate for level I of the Executive Schedule. An agency must reduce or terminate a retention allowance before deferring any other type of payment under the deferral provision in the aggregate pay limitation regulations.

Group Retention Allowances

An agency may pay a retention allowance of up to 10 percent of basic pay (or up to 25 percent with OPM approval) to a group or category of employees if -

- the unusually high or unique qualifications of the employees or a special need of the agency for the employees' services makes it essential to retain the employees in the group, and
- it is reasonable to presume that there is a high risk that a significant number of employees in the targeted group would be likely to leave the federal service for any reason in the absence of the allowance.

Position Coverage. Group-based retention allowances may be paid to current Federal employees holding a General Schedule (GS), prevailing rate (wage), or another type of position for which such payments have been approved by OPM. Exception: An agency may not authorize a group-based retention allowance for groups of senior-level and scientific or professional (SL/ST) employees, Senior Executive Service (SES) members, Executive Schedule positions, Presidential appointees, or similar positions.

Defining the Group. An agency must narrowly define the targeted group of employees to be paid a retention allowance using factors such as occupational series, grade level, distinctive job duties, unique qualifications, assignment to a special project, minimum agency service requirements, organization or team designation, geographic location, and performance level. (Note: An agency may not establish performance level as the sole or primary basis for authorizing a retention allowance.)

Likely to Leave. To support its determination that there is a high risk that a significant number of employees in the group targeted to receive a retention allowance are likely to leave, the agency should gather evidence of extreme labor market conditions, high demand in the private sector for the knowledge and skills possessed by the employees, significant disparities between federal and private sector salaries, and/or other similar conditions.

OPM Approval. Agency requests to OPM for approval of a group retention allowance in excess of 10 percent, but not more than 25 percent, of basic pay must include—

- a description of the group and the number of employees to be covered by the proposed retention allowance,
- a written determination that the group of employees meets the conditions for payment,
- the proposed percentage retention allowance payment and a justification for that percentage,

- the expected duration of retention allowance payments, and
- any other pertinent information.

These requests must be submitted by the agency head (or designee). OPM may require that such requests be coordinated with other agencies with similar employees.

Other Provisions. An agency may pay a group-based retention allowance to any individual in the targeted group if all other conditions and requirements for payment of a retention allowance are met. For example, a retention allowance may not be paid during the service period for an existing recruitment or relocation bonus service agreement. Also, a retention allowance may not be authorized or continued if the payments would cause the employee's projected aggregate compensation in a calendar year to exceed the rate for level I of the Executive Schedule.

Severance Pay

Severance pay is authorized for employees who are involuntarily separated from federal service and who meet other conditions of eligibility. Both full-time and part-time employees with a regularly scheduled tour of duty are entitled to severance pay.

Eligibility for severance pay. To be eligible for severance pay, an employee must:

- Be serving under a qualifying appointment;
- Have completed at least 12 months of continuous service; and
- Be removed from Federal service by involuntary separation.

An employee is not eligible for severance pay if he or she:

- Is serving under a nonqualifying appointment;
- Declines a reasonable offer;
- Is serving under a qualifying appointment in an agency scheduled by law or Executive Order to be terminated within 1 year after the date of the appointment, unless on the date of separation, the agency's termination has been postponed to a date more than 1 year after the date of the appointment, or the appointment is effected within 3 calendar days after separation from a qualifying appointment;
- Is receiving injury compensation, unless the compensation is being received concurrently with pay or is the result of someone else's death; or
- Is eligible upon separation for an immediate annuity from a federal civilian retirement system or from the uniformed services. Such an employee is ineligible even if all or part of the annuity is offset by payments from a non-federal retirement system the employee elected instead of federal civilian retirement benefits or disability benefits received from the Department of Veterans Affairs.

Computing severance pay. The basic severance pay allowance consists of the following:

- One week of pay at the rate of basic pay for the position held by the employee at the time of separation for each full year of creditable service through 10 years;
- Two weeks of pay at the rate of basic pay for the position held by the employee at the time of separation for each full year of creditable service beyond 10 years; and

- Twenty-five percent of the otherwise applicable amount for each full 3 months of creditable service beyond the final full year.

Age adjustment allowance. The basic severance pay allowance is augmented by an age adjustment allowance consisting of 2.5 percent of the basic severance pay allowance for each full 3 months of age over 40 years.

Lifetime limitation. The severance pay fund is limited to that amount which would provide 52 weeks of severance pay (taking into account any weeks of severance pay previously received).

Creditable service. The following types of service are creditable for computing an employee's severance pay:

- Civilian service as an employee, excluding time during a period of nonpay status that is not creditable for annual leave accrual purposes;
- Service performed with the United States Postal Service or the Postal Rate Commission;
- Military service, including active or inactive training with the National Guard, when performed by an employee who returns to civilian service through the exercise of a restoration right provided by law, Executive Order, or regulation;
- Service performed by an employee of a nonappropriated fund instrumentality of the Department of Defense or the Coast Guard, who moves to a position within the civil service employment system of the Department of Defense or the Coast Guard, respectively, without a break in service of more than 3 days; and
- Service performed with the government of the District of Columbia by an individual first employed by that government before October 1, 1987, excluding service as a teacher or librarian of the public schools of the District of Columbia.

Termination of severance pay entitlement. Entitlement to severance pay ends when:

- The individual entitled to severance pay is employed by the government of the United States or the government of the District of Columbia, unless employed under a nonqualifying time-limited appointment; or
- The severance pay fund is exhausted.

Dual Employment

Generally federal employees, civilian and military, are prohibited from receiving pay from more than one federal government source. The laws on dual employment apply to agencies in the executive, legislative and judicial branches, corporations owned or controlled by the government, and nonappropriated fund organizations under the jurisdiction of the armed forces.

Civilian federal employees can hold more than one government job in some limited situations. An individual may have more than one federal appointment, but may receive pay from more than one civilian job only when:

- the jobs total no more than 40 hours of work a week, Sunday to Saturday (excluding overtime); or
- there is an authorized exception.

This means an employee on leave without pay (LWOP) from one position may be paid for another position. Paid leave, however, counts toward the 40-hour-per week limitation unless there is an authorized exception.

Authorized exceptions to the limitation on pay for more than 40 hours a week include:

- exceptions in law, e.g., with agency approval federal employees can work for the U. S. Postal Service;
- emergency services relating to health, safety, protection of life or property, or national emergency;
- expert and consultant jobs when working different hours as an intermittent employee; and
- fee paid on other than a time basis (lump-sum pay for a report, research product or service not based on the number of hours or days worked).

Also, in unusual circumstances, federal agencies can make exceptions to obtain required personal services when they cannot be readily obtained otherwise.

Civilian Federal Employees Working in Outside (Nonfederal) Jobs

Federal employees shall not engage in outside employment or activities that conflict with official duties and responsibilities. Many federal agencies have written policies that allow outside employment, especially when it is not related to the federal work and will not result in, or create the appearance of, a conflict of interest.

Agency policies may require employees to receive prior approval for outside employment even when co-workers have similar outside jobs. Ask your supervisor, agency ethics official, and agency personnel office for further information.

Members of a Uniformed Service Holding Civilian Government Jobs

Members of a Uniformed Service (Army, Navy, Marines, Air Force, etc.) on active duty may not receive pay from another government position, except during terminal leave, or unless specifically authorized by law. Enlisted personnel may be employed part-time during off-duty hours in Department of Defense nonappropriated fund activities. Members of the Armed Forces Reserves and members of the National Guard may receive military pay and allowances in addition to pay from another government position.

* Note: With appropriate agency approval, federal employees may work for the District of Columbia (DC) government.

Employment of Retirees (Dual Compensation Issues)

Retirees can work for the federal government. However, federal civilians will have their salary reduced by the amount of their annuity unless an exception is approved. In addition, retirees under age 70 may have their Social Security check reduced if their annual earnings exceed the established limit.

Federal Retirees under CSRS and FERS

Most retirees under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) will have their hourly pay reduced by the hourly rate of the annuity

when reemployed by the federal government. This reduction is required by dual compensation laws 5 U.S.C. 8344 and 8468. These laws apply to federal jobs in the legislative, executive, and judicial branches (including government corporations, nonappropriated fund instrumentalities under the jurisdiction of the armed forces, and the U.S. Postal Service). Generally, the law requires that the employing agency reduce the retiree's hourly pay by the hourly rate of their annuity. This reduction equals the retiree's annual annuity divided by 2087. For example, if a job's gross pay is \$15.80 per hour and a retiree's hourly annuity rate is \$5.80, then the retiree's gross pay is reduced to \$10.00 per hour. If a retiree works for a year, his or her retirement is recalculated with this added service.

Note: If retirement was due to involuntary separation or disability, the annuity may terminate upon reemployment. These retirees should check with the employing agency or call OPM's Retirement Information Office at 1-888-767-6738 or at (202) 606-0500 in the Washington, D.C. area.

Military Retirees

Retirees of U.S. Uniformed Services are now treated as other retirees (see next heading). Prior reductions in military retired pay were repealed by P.L. 106-65 in October 1999.

Other Retirees - Private Sector, State, and Local Government

Generally, when other retirees become a federal employee there is NO reduction in their federal pay or in their retirement pay or annuity. However, paid work may reduce Social Security retirement, survivors or disability benefits if earnings exceed the established limits. For details, contact the Social Security Administration at 1-800-772-1213.

Exceptions for CSRS and FERS Retirees

Federal agencies may request authority to waive the salary reduction in special and unusual circumstances. The law limits waivers to "positions for which there is exceptional difficulty recruiting or retaining a qualified employee" and to temporary employment while "the authority is necessary due to an emergency involving a direct threat to life or property or other unusual circumstances." Agencies can use criteria and procedures in 5 CFR part 553 to request exceptions. Generally, to qualify for an exception, a retiree must be the only qualified applicant available or be uniquely qualified for the job. Generally, the USAJOBS (www.usajobs.opm.gov) vacancy notice will indicate when an agency has waiver authority or anticipates requesting it.

Retaining Reinstatement Eligibility

Retirees who obtained federal reinstatement eligibility before they retired do NOT lose it because they retire.

Recent Legislative Changes

This section contains several changes in pay and leave administration, benefits, and other policies resulting from the enactment of the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136, November 24, 2003).

National Security Personnel System

Section 1101 of the Act amends subpart I of part III of title 5, United States Code, to add chapter 99 which, among other things, provides the Secretary of Defense and the Director of the Office of Personnel Management (OPM) with the authority to establish a new human resources management system (including a new labor relations system) for Department of Defense (DOD) employees. The Act also provides the Secretary with the authority to establish separation and retirement incentives and additional staffing flexibilities.

Military Leave for Mobilized Federal Civilian Employees

Section 1113 of the Act amends 5 U.S.C. 6323(b) to provide that employees who perform full-time military service as a result of a call or order to active duty in support of a contingency operation (as defined in 10 U.S.C. 101(a)(13)) are entitled to 22 days of military leave each calendar year. Under 5 U.S.C. 5519, the military pay received by an individual who has been activated in support of a contingency operation (as defined in 10 U.S.C. 101(a)(13)) must be credited (less any travel, transportation, or other per diem allowances) against any Federal civilian pay the employee received during the 22 workdays of military leave provided by 5 U.S.C. 6323(b). An employee is entitled to the greater of his or her civilian or military pay, not both. However, an employee may choose to take annual leave instead of military leave in order to retain both civilian and military pay. The amendment applies to military service performed on or after November 24, 2003.

Modification of the Overtime Hourly Pay Cap

Section 1121 of the Act amends 5 U.S.C. 5542(a)(2) to modify the hourly overtime pay cap for certain federal employees who are exempt from (not covered by) the overtime pay provisions of the Fair Labor Standards Act (FLSA) of 1938, as amended. This amendment became effective on November 24, 2003 (which fell in the middle of a pay period for most employees). For FLSA-exempt employees who are entitled to receive overtime pay under 5 U.S.C. 5542(a)(2), the hourly rate of overtime pay is the **greater** of (1) one and one-half times the minimum hourly rate of basic pay for GS-10 (including any applicable special salary rate, locality rate of pay, or special pay adjustment for law enforcement officers), or (2) the employee's own hourly rate of basic pay (including any applicable special salary rate, locality rate of pay, or special pay adjustment for law enforcement officers). OPM will amend its regulations to reflect this new provision in the near future, but federal agencies are responsible for ensuring proper payments as of November 24, 2003, and need not wait for revised regulations to begin making these payments.

Environmental Differential Pay and Hazardous Duty Pay for Exposure to Asbestos

Section 1122 of the Act amends the environmental differential pay (EDP) authority at 5 U.S.C. 5343(c)(4) for prevailing rate (wage) employees and hazardous duty pay (HDP) authority at 5 U.S.C. 5545(d) for General Schedule (GS) employees to require that any EDP or HDP entitlement determination concerning exposure to asbestos must be consistent with permissible exposure limits (PELs) set by the Occupational Safety and Health Administration (OSHA). As of November 24, 2003, any administrative or judicial determination concerning EDP or HDP for asbestos exposure must be based on the OSHA PELs for asbestos. OPM's regulations regarding HDP for GS employees already reflect this requirement. OPM plans to update the EDP regulations for wage employees in the near future.

Higher Caps on Student Loan Repayments

Section 1123 of the Act amends 5 U.S.C. 5379(b)(2)(A) to increase the maximum amount Federal agencies are authorized to repay under the Federal student loan repayment program from \$6,000 to \$10,000 for any one employee in a calendar year. The Federal Employee Student Loan Assistance Act (Public Law 108-123, November 11, 2003) had previously increased the annual limitation from \$6,000 to \$10,000 per employee in any calendar year and increased the aggregate limitation from \$40,000 to \$60,000 for any one employee. OPM will issue regulations to reflect the new payment limitations in the near future.

Authorization for Cabinet Secretaries, Secretaries of Military Departments, and Heads of Executive Agencies to be Paid on a Biweekly Basis

Section 1124 of the Act amends 5 U.S.C. 5504 to require the heads of agencies to be paid on a biweekly basis instead of a monthly basis. (The biweekly rate is determined by dividing the employee's annual rate by 2087 and multiplying the result by 80.) This amendment also applies to members of the Foreign Service, the Senior Foreign Service, and the Federal Bureau of Investigation and Drug Enforcement Administration Senior Executive Service. This amendment became effective on the first day of the first applicable pay period beginning on or after November 24, 2003 (November 30, 2003, for most affected officials and employees). In addition, section 1124 allows the head of an agency in exceptional circumstances to elect to cover employees under 5 U.S.C. 5504 who would otherwise be excluded from coverage and requires OPM to issue regulations providing guidelines on the coverage of such employees.

Senior Executive Service Pay

Section 1125 of the Act amends 5 U.S.C. chapter 53, subchapter VIII, to (1) establish a new performance-based pay system for members of the Senior Executive Service (SES) under 5 U.S.C. 5382, (2) end locality-based comparability payments under 5 U.S.C. 5304(h) for senior executives, and (3) change the threshold for imposing post-employment restrictions on certain senior executives under 18 U.S.C. 207(c)(2)(A). In addition, section 1125(c)(4) states that any reference in a provision of law to a rate of basic pay that is above the minimum payable and below the maximum payable to a member of the SES will be considered a reference to the rate payable for level IV of the Executive Schedule. A memorandum on the new SES pay system is available on OPM's Web site at <http://www.opm.gov/oca/compmemo/2003/2003-19.asp>.

Design Elements for Pay-for-Performance Systems in Demonstration Projects

Section 1126 of the Act amends 5 U.S.C. chapter 47 to establish requirements for new pay-for-performance systems in demonstration projects. According to these requirements, such pay-for-performance systems must be fair, credible, and transparent, and must link the pay-for-performance system, the employee performance appraisal system, and the agency's strategic plan.

Federal Flexible Benefits Plan Administrative Costs

Section 1127 of the Act requires executive branch agencies of the Federal Government to pay to OPM, or the entity designated by OPM, any administrative fees associated with their employees' participation in the Federal Flexible Benefits Plan. The law prohibits agencies from imposing any fee on employees to defray the administrative costs of the program. The law requires that OPM submit a report to the Committee on Government Reform of the House of Representatives

and the Committee on Government Affairs of the Senate by March 31, 2004, specifying the Government's administrative costs associated with the Federal Flexible Benefits Plan for 2003. The report also must project the annual administrative costs of the program for the next 5 fiscal years. Any agency participating in the program must submit annual reports for the first 3 calendar years to the Office of Management and Budget specifying the amount of employment tax savings, net of administrative fees.

Human Capital Performance Fund

Section 1129 of the Act adds a new chapter 54 to title 5, United States Code, to provide authority for a Human Capital Performance Fund (HCPF). Under this authority, agencies may grant additional, continuing pay to their highest performing and most valuable employees. OPM is responsible for administering the Fund, including approving agency HCPF plans in consultation with the Chief Human Capital Officers Council and allocating money from the Fund to agencies for training and initial payments to employees.

The law establishes broad plan requirements and requires agencies to establish and obtain OPM approval of their HCPF plans before receiving an allocation from the Fund. Agencies may use their HCPF allocation to grant additional, continuing payments of up to 10 percent of basic pay to General Schedule, prevailing rate (wage), Foreign Service, and other employees based on exceptional performance contributing to the achievement of the agency's mission. The law prohibits agencies from granting HCPF payments to senior executives and similar employees. No more than 15 percent of an agency's employees may receive payments from the Fund in any fiscal year. Fund allocations must be used only to pay for new human capital performance payments in the fiscal year in which awarded. Agencies are responsible for funding HCPF payments thereafter.

Human capital performance payments will be part of an employee's rate of basic pay for retirement purposes under 5 U.S.C. chapter 83, subchapter III, and chapter 84; life insurance under 5 U.S.C. chapter 87; and for other purposes prescribed by OPM regulation (except for adverse actions under 5 U.S.C. chapter 75). However, OPM cannot allocate HCPF funds to agencies until separate appropriations legislation is enacted. OPM will provide additional information to agencies concerning Fund allocations at a later date.

Employee Surveys

Section 1128 of the Act requires each Executive agency (as defined in 5 U.S.C. 105) to conduct an annual employee survey. Each agency's survey must include questions that are unique to that agency, in accordance with regulations prescribed by OPM. Surveys will assess (1) leadership and management practices and (2) employees' satisfaction with their leadership, work environment, rewards and recognition, opportunities for professional development, and their opportunity to contribute to achieving their agency's mission. OPM will issue implementing regulations in 2004.

Awards

Federal agencies are authorized to grant awards to their employees to recognize and reward good performance. Below are the primary types of awards that are given to federal employees, and the circumstances under which the awards may be made.

Awards for Federal Employees

Regulations provide for four forms of awards that can be given to federal employees: lump-sum cash awards, honorary awards, informal recognition awards, and time off awards.

Restrictions on Amount of Cash Awards

There are certain restrictions on the amount of a cash award that a federal employee can receive. Any cash award over \$10,000 must be approved by OPM. For awards over \$25,000, the President must approve the amount over \$25,000.

Honorary Awards v. Informal Recognition Awards

Honorary awards are generally symbolic and usually do not involve monetary recognition at all. They are a gesture of respect given to employees to recognize their performance and value to the organization. Many agencies include this traditional form of high-level, formal recognition as part of their overall incentive awards programs. Informal recognition awards, on the other hand, are a type of award that may be given to reward performance that otherwise might not merit an award such as cash, time-off, or an honorary award. Agencies use these awards to provide more frequent and timely informal recognition to employees.

Coverage for Contract Employees

An award program cannot cover both regular federal employees and contract employees. Employees of outside contractors may not receive direct payments from the federal government. Their employment, including pay, rewards, and discipline, must be handled by their employer - the contractor - not the federal government. In some situations, federal employees and contract employees work side by side as members of the same overall work teams. In such cases, it might be desirable to use procurement flexibilities to set up a parallel awards program for the contract employees, which the contractor would be required to fund and administer. Under the terms of the contract, the government could make additional payments to the contractor according to performance-related criteria specified in the contract, to provide the funds which the contractor would then distribute to the contract employees. Setting up and operating such a program would have to conform to procurement regulations, limitations, and requirements. Personal services contracts could also be written to allow for performance-contingent payments. The key issue is that such payments to individuals, whether under personal services or non-personal services contracts, would not be made under the awards authorities in title 5, United States Code.

Coverage of Both Civilian and Military Employees

An awards program can cover both civilian and military employees, but only to the extent that the program covers awards for suggestions, inventions, or scientific achievements. For those

categories of awards, an agency can choose to have a single program in which both civilian and military employees can participate, or even a specific award for which both might be eligible. Otherwise, for all other types of awards authorized by chapter 45 of title 5, United States Code, military employees are excluded.

Granting an Award to a Private Citizen

It may be possible to recognize the contributions of private citizens to the government, but it would not be done under the awards programs authorized by chapter 45 of title 5, United States Code. The awards statute in title 5 only authorizes granting awards to and recognition of federal employees. An agency head may have other general authorizations and access to other funds for the accomplishment of the agency's mission that might be accessible for the recognition of private citizens who have made significant contributions to the completion of the agency's mission or the improvement of the government.

Awards for SES Employees under Subpart A of Part 451 of Title 5, CFR

Agencies can give Senior Executive Service (SES) employees any awards under subpart A of part 451 for which they qualify and are eligible. The specific exception in the regulations at section 451.104(a)(3) of title 5, Code of Federal Regulations, refers to performance awards because there is a separate statutory and regulatory authority for granting performance awards to SES employees.

Suggestion Award Programs

Agencies are not required by law or regulation to set up suggestion award programs. OPM says that it is aware that some agencies have redesigned and streamlined their programs to reward employee ideas and innovations, but that agencies should remember that Congress established the suggestion award authority as the foundation of all employee incentive award authorities. OPM says that the program is rooted in a presumption that governmentwide - not just agencywide - benefits are to be determined and rewarded. Consequently, OPM expects agencies to extend their interdepartmental good will and cooperate when suggestions are referred to them from other agencies for evaluation and possible adoption, even if the receiving agency has curtailed formal procedures for its own employees. Agencies that have retained their existing submission and evaluation systems rightfully expect reasonable consideration of ideas their employees put forward, says OPM

Performance Awards

Performance awards are lump-sum cash awards based on ratings of record of Level 3 (Fully Successful or equivalent) or higher. Rating-based performance awards are included among the various types of awards available under part 451 of title 5, Code of Federal Regulations. Agencies can use the rating of record as the sole basis for granting a performance award.

Payment of Performance Awards by Agencies Not Covered by Part 430

Agencies not covered by Part 430 of Title 5, Code of Federal Regulations (CFR) may pay performance awards. The provision at section 451.104(a)(3) of title 5, CFR, regulates the statutory authority to pay performance-based cash awards by specifying the use of a rating of record under the provisions of 5 CFR 430 as the sole justification for such an award. However, since the statutory authority permits any agency to pay a performance-based cash award to a

General Schedule employee based on a rating of “Fully Successful” or better, agencies that are not covered by the provisions of 5 CFR 430 can still use their official agency performance rating as the justification for the award.

Cash Performance Awards Under “Pass/Fail” Appraisal Program

An agency may provide a cash performance award to an employee who receives a “pass” rating under a “Pass/Fail” appraisal program. A “pass” rating in a two-level appraisal program is a Level 3 (Fully Successful or equivalent) summary level. The law at section 4505a of title 5, United States Code, which covers General Schedule employees, states that “an employee whose most recent performance rating was at the Fully Successful level or higher (or the equivalent thereof) may be paid a cash award.” Eliminating the higher summary levels also eliminates the further performance distinctions that many agencies had applied in granting rating-based performance awards. Although not required, it was not uncommon for agencies to restrict the use of rating-based awards to employees with ratings of record above Level 3. Under a two-level appraisal program, agencies need to develop additional criteria for selecting employees who should receive cash performance awards and for granting awards of different amounts.

Technically, agencies will be free to continue to use just a Level 3 rating of record as the legal criterion for granting a cash award. However, OPM advises agencies to make some record of the additional performance distinctions they make to select award recipients and thereby prevent perceptions of awards being arbitrary or capricious.

Rating-Based Performance Awards Subject to Approval Thresholds

Rating-based performance awards are subject to the \$10,000 and \$25,000 approval thresholds. Under sections 4502(a) and (b) of title 5, United States Code, and the implementing regulations, such awards always have been subject to OPM and Presidential approval, respectively. Section 4505a, of title 5, United States Code, further restricts performance awards to no more than 10 percent of the employee’s annual rate of basic pay, excluding any locality-based comparability payment, except that a rating-based award may exceed 10 percent if the agency head determines that an employee’s exceptional performance justifies such an award. However, in no case may a rating-based award exceed 20 percent of the employee’s annual rate of basic pay, excluding locality-based comparability payments.

Granting Performance Awards For Non-Recurring Contributions

Performance awards, as the terminology is used, refer to cash awards granted on the basis of the rating of record, which generally summarizes the employee’s performance over an extended period of time, i.e., the full appraisal period. The more important flexibility now in the regulations is that the contribution that may merit a special act or service award is no longer defined as a “non-recurring” contribution. This new flexibility should make it easier for agencies to design award programs that recognize the successful or improved accomplishment of work projects that by their nature can be considered “recurring contributions.”

Honorary Awards

An honorary award is a gesture of respect given to an employee to recognize his or her performance and value to the organization. Honorary awards are generally symbolic. Many agencies include as part of their overall incentive awards programs a traditional form of high-

level, formal “honor awards.” Often, such honor award programs do not use monetary recognition at all, but emphasize providing formal, highly symbolic recognition of significant contributions and publicly recognizing organizational heroes as examples for other employees to follow. They typically involve formal nominations, are granted in limited numbers, and are approved and presented by senior agency officials in formal ceremonies. The items presented, such as engraved plaques or gold medals, may be fairly expensive to obtain. However, they are principally symbolic in nature and should not convey a sense of monetary value. In other, more routine situations, many honorary awards are provided to commemorate the presentation of cash or time-off awards. As mementos, such non-monetary honorary award items may not be particularly expensive; indeed, they may be of only nominal value (e.g., simple certificates in inexpensive frames, lapel pins, paperweights). Nonetheless, all items used as honorary awards must meet specific criteria.

Criteria For Honorary Awards

Because honorary awards represent symbolic formal recognition, items presented as honorary awards must meet all of the following criteria:

- **The item must be something that the recipient could reasonably be expected to value, but not something that conveys a sense of monetary value.** A basic principle of symbolic awards is that their primary value should be as a form of recognition and not as an object with monetary value. If monetary recognition is intended, the agency should use the explicit authority provided by Congress to grant a cash award. Care also should be taken to consider what the recipient might find attractive, gracious, and complimentary.
- **The item must have a lasting trophy value.** An honorary award that is intended to have abiding symbolic value loses that value if it does not have a lasting form. Consequently, items must be neither intangible nor transitory, such as food or beverages. Vouchers and tickets to events, while technically tangible themselves, do not meet this criterion because they are intended to be redeemed for something that does not have lasting value.
- **The item must clearly symbolize the employer-employee relationship in some fashion.** Affixing, imprinting, or engraving an agency seal or logo on an honorary award item is an obvious way to meet this criterion. However, putting a logo on an item that otherwise has no connection to the employee’s work (e.g., a child’s toy or sporting equipment) would not meet this criterion. In some cases, adding such a seal or logo might not be practical or necessary to meet this criterion (e.g., a plain desk globe might be appropriate for an employee who handles international matters for the agency). Further, an item that meets this criterion in one agency, because of its mission or the employee’s job, might not meet it in another agency (e.g., a desk globe would not be appropriate for an accountant in an agency with no international programs). Consequently, each agency is responsible for determining whether items meet this criterion.
- **The item must take an appropriate form to be used in the public sector and to be purchased with public funds.** Some items may meet the other criteria, but still not be appropriate. For example, it would not be appropriate to purchase a firearm as an honorary award, even to recognize a law enforcement official. Agency officials must take responsibility for assuring that the authority to “incur necessary expense for honorary recognition” is used in a manner that shows good judgment and preserves the credibility and integrity of the federal government’s awards program.

Informal Recognition Awards

Informal recognition awards are a type of award that may be given to recognize performance that, taken alone, does not merit a larger award, such as cash, time-off, or an honorary award. Agencies are finding that they can effectively and efficiently achieve many of the goals of a recognition and incentive award program by providing more frequent, timely, and informal recognition of employee and group contributions. OPM has used its regulatory authority to provide for this form of recognition at section 451.104(a) of title 5, Code of Federal Regulations, as an appropriate agency use of the statutory authority to “incur necessary expense for honorary recognition.” Because these informal recognition awards are intended to recognize contributions of lesser scope that might otherwise go unrecognized, they are subject to fairly general criteria.

Criteria For Informal Recognition Awards

Items used effectively and efficiently as informal recognition award items are often extremely casual and low-cost. In addition, informal recognition awards typically have more informal approval procedures and presentation settings than honorary awards. However, it is important to remember that some contribution must still form the basis for using an informal recognition award and be clearly acknowledged as part of any presentation, however informal. Items presented as informal recognition awards must meet the following criteria:

- **The item must be of nominal value.** The value of the award should be commensurate with the contribution being recognized. These awards recognize contributions that would not ordinarily merit formal recognition. No exact dollar value is set as nominal. Nevertheless, agencies are expected to use good judgment and remember that nominal generally refers to a low monetary value.
- **The item must take an appropriate form to be used in the public sector and to be purchased with public funds.** Some items may be inexpensive but still not be appropriate. Agency officials are responsible for determining that the items used as informal recognition awards demonstrate good judgment and preserve the credibility and integrity of the federal government’s awards program.

Merchandise Items

In some limited circumstances, merchandise items could be used as an honorary award or informal recognition award. Merchandise may be used for awards purposes if and only if the item meets the criteria for an honorary award or an informal recognition award. Agencies need to be aware that the Internal Revenue Service (IRS) considers merchandise to be a taxable fringe benefit that must be taxed on its fair market value. Further questions on taxable fringe benefits should be directed to the IRS.

Gift Certificates

Agencies may present such certificates and vouchers if they are being used as informal recognition awards. Merchant gift certificates should not be confused with cash surrogates (which are vouchers or checks that can be easily and widely redeemable for cash, not merchandise). Gift certificates usually are given when the intent is to give something, but let the recipient make the final choice. Merchandise certificates cannot meet a cash surrogate’s criterion of being easily negotiable because of limitations on where, how, and for what they may be redeemed. Gift certificates fail to meet the criteria for honorary awards because they convey a clear monetary value and cannot be characterized as symbolizing the employer-employee

relationship. Consequently, the only circumstance where a gift certificate may be used to recognize an employee contribution is as an informal recognition award, which may not exceed nominal value.

Agencies also need to be aware that the IRS considers gift certificates to be taxable fringe benefits that must be taxed on their fair market value. The face value of a gift certificate would be considered its fair market value. Further questions on taxable fringe benefits should be directed to the IRS.

Savings Bonds

OPM has determined that U.S. Savings Bonds have distinctive, positive qualities that make them appropriate recognition items. Despite the fact that U.S. Savings Bonds clearly convey a sense of monetary value, a savings bond must be considered a form of honorary award since it is a federal contract that must be purchased and held for a minimum of 6 months before it can be redeemed. Its “failure” to meet the honorary award criterion regarding a sense of monetary value need not preclude its use. The other criteria are met since its minimum 6-month holding period gives it some lasting value, it certainly can be considered symbolic of the employee-employer relationship for any federal employee, and it is appropriate to the public sector. Consequently, OPM has concluded that a savings bond may be used as an honorary award. When of nominal value, a savings bond also can be used as an informal recognition award since it meets the required criteria. Keep in mind, though, that OPM considers savings bonds to be a special case, and says that it expects that **all** the criteria for using items as honorary awards and informal recognition awards will be applied in other cases.

Again, the IRS considers savings bonds to be taxable on their fair market value. The cost of a savings bond would be considered its fair market value. Further questions should be directed to the IRS.

Time-Off Awards

As its name suggests, a time-off award allows an employee to take time off the job without losing pay or using earned leave.

Limits on the number of hours that can be granted as a time-off award

There are no governmentwide limits on granting time-off awards. However, agencies are free to establish their own guidelines and limitations on how much time off is appropriate for various employee contributions, as well as overall periodic limits that may be useful for preserving the integrity of their time-off award program and preventing abuse and/or criticism.

Regulatory Limitations Applicable to Time-off Awards

The regulations provide that time-off awards shall not be converted to cash. Agencies must document a time-off award, as well as cash awards, in compliance with the OPM rules. In addition, agencies are required to submit time-off awards, as well as cash awards, data to the Central Personnel Data File.

Offering the Employee a Choice of Time-off or a Cash Award

Technically, there is no legal bar to offering a choice between a time-off or a cash award. However, OPM strongly recommends that agencies not offer such a choice. To do so would put the employee who opts for time-off in “constructive receipt,” for tax withholding purposes, of the cash award offered. Appropriate withholding based on the cash award offered would have to be done at the time the choice is offered (i.e., when the employee reasonably would be expected to receive the cash), rather than based on the pay associated with the time off when the time off is actually taken.

If an employee chooses time off after being offered a choice between time off or cash as an award, the following difficulties can arise:

- it will be difficult to explain to the employee the basis for the unexpected additional tax withholding that occurs as a result of the constructive receipt of the cash award; and
- the administrative burden on the agency may well be prohibitive because agencies would be responsible when the choice of award is offered for assuring that the initial withholding based on the cash award offered is made at that time. When the time-off award is actually used, the agency would be responsible for comparing the amount already withheld for the cash award offered and the amount that otherwise would be due based on the pay for the time off. No additional withholding would be made if the tax due for the time off is at least equal to the tax already withheld for the cash offered. If pay for the time off is greater than the cash award offered, an additional withholding is made on the difference when the time-off award is used.

Special Awards for the Senior Executive Service

Presidential Rank Awards

Each year, the President recognizes and celebrates a small group of career Senior Executives with the President’s Rank Award for exceptional long-term accomplishments. Beginning with awards granted in 2003, eligibility for this award is extended to other categories of high-performing senior career employees. Winners of this prestigious award are strong leaders, professionals, and scientists who achieve results and consistently demonstrate strength, integrity, industry, and a relentless commitment to excellence in public service.

There are two categories of Presidential Rank Awards – Distinguished Executives and Meritorious Executives. Award winners are chosen through a rigorous selection process. They are nominated by their agency heads, evaluated by boards of private citizens, and approved by the President. The evaluation criteria focus on leadership and results.

Distinguished rank recipients receive a lump-sum payment of 35 percent of their base pay. Meritorious rank recipients receive 20 percent of base pay. All recipients receive a framed certificate signed by the President.

The Thrift Savings Plan

The Thrift Savings Plan is a retirement and savings investment plan for federal employees. Congress established the TSP in 1986 for the purpose of providing federal employees with retirement income. The TSP offers federal employees the same type of savings and tax benefits that many private corporations offer their employees under so-called “401(k)” plans. You can participate in the TSP if you are covered by the Federal Employees’ Retirement System (FERS), the Civil Service Retirement System (CSRS), or an equivalent retirement plan.

The Thrift Savings Plan is an important benefit designed to help federal employees save for the future. If you are a newly hired FERS employee, you can begin your contributions to the TSP immediately. When you become eligible, your agency will contribute an amount equal to 1% of your base salary each pay period. In addition, your agency will match your contributions up to certain limits set by law. To take advantage of all the agency matching money that is available, you would need to contribute 5% of your basic pay each pay period. You can contribute more or less, however.

You may think that you are too young or financially constrained to worry about retirement. Remember, though, that delaying your decision to contribute means that you miss out on agency matching contributions that you can never recapture.

If you are a CSRS employee, you do not receive any agency money, but like FERS employees, you decide how your money is invested, and you don’t pay taxes on it or its earnings until you take it out.

Civilian employees who are members of the Ready Reserve can also contribute to a separate account from their Reserve pay. Members of the uniformed services should read the “Summary of the Thrift Savings Plan for the Uniformed Services” for complete and accurate TSP information applicable to them.

In short, the TSP is a valuable benefit for federal employees. It offers all participants:

- Tax deferral on contributions
- A choice of five investment funds
- A loan program
- Catch-up contributions for participants age 50 or older
- In-service withdrawals for financial hardship or after age 59½
- A choice of post-separation withdrawal options
- The ability to transfer money from other eligible retirement savings plans into your TSP account

Signing Up for the TSP

Ask your agency personnel office for the TSP Election Form (TSP-1) or download a copy from the “Forms & Publications” section of the TSP Web site (www.tsp.gov). Use the form to show

how much you want to contribute each pay period. If you are a current federal employee, submit Form TSP-1 to your agency personnel office during any TSP open season. If you are a new employee, you may submit Form TSP-1 during the first 60 days after your employment. (Some agencies may be using an electronic version of Form TSP-1. Check with your personnel office.) Your agency will deduct your contributions from your pay each pay period. You can stop your contributions at any time.

Importance for Employees Covered by FERS

If you are a FERS employee, your TSP account is one of three parts of your retirement coverage. It is separate from the other two parts, which are your FERS Basic Annuity and Social Security.

As soon as you are eligible, you will receive two types of agency contributions to your TSP account, which together can equal as much as 5% of your basic pay:

1. **Agency Automatic (1%) Contributions.** When you become eligible, your agency automatically deposits into your TSP account an amount equal to 1% of your basic pay each pay period, even if you do not contribute your own money. After three years of federal civilian service (or two years, in some cases), you are vested in these contributions and their earnings.

2. **Agency Matching Contributions.** When you become eligible, your agency will match the first 3% of basic pay you contribute each pay period dollar for dollar. Each dollar of the next 2% of basic pay that you contribute will be matched 50 cents on the dollar. You are immediately vested in the matching contributions.

Here's how your Agency Automatic (1%) and Matching Contributions can add up to an additional 5% of your basic pay:

Percent of Basic Pay Contributed to Your Account (FERS Employees Only)			
You Put In:	Your Agency Puts In:		The Total Contribution Is:
	Automatic Contribution	Matching Contribution	
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%
6% - 13%	1%	4%	11% - 18%

You can contribute a percentage of your basic pay or a whole dollar amount up to the limits below:

TSP Limits (FERS)		IRS Limits	
For Pay Periods:		Calendar Year	
Dec. 2002 – Nov. 2003	13%	2003	\$12,000
Dec. 2003 – Nov. 2004	14%	2004	\$13,000
Dec. 2004 – Nov. 2005	15%	2005	\$14,000
Dec. 2005 and beyond	Limit Eliminated	2006	\$15,000

How the TSP Benefits CSRS Employees

If you are a CSRS employee, you can take advantage of the TSP to provide a source of retirement income in addition to your CSRS annuity. Beginning in December 2003, you can contribute up to 9% of your basic pay each pay period. This percentage will increase to 10% in December 2004. In December 2005, the limit will be eliminated and only the IRS limit will apply. Although you do not receive any agency contributions, you receive the tax benefits and other TSP benefits described below. You are always vested in all of the money in your account.

TSP Benefits that Apply to Both FERS and CSRS Employees

Tax Savings. Your TSP contributions are deducted from your pay before federal, and in most cases, state income taxes are calculated. As long as the money stays in your account, you pay no income tax on any contributions or associated earnings.

Choice of Investment Funds. All participants can invest in any or all of the five TSP funds. You choose the investment mix that is best for you.

Loans. Through the TSP loan program, you may borrow your contributions and related earnings for a general purpose loan (with a repayment period of 1 to 5 years) or a loan for the purchase of a primary residence (with a repayment period of 1 to 15 years). Documentation is required for residential loans only. There are other restrictions on loan amounts. Spousal rights apply. For more information, read the booklet “TSP Loan Program” on the TSP’s website at www.tsp.gov.

Catch-up Contributions. Participants age 50 and older who are already contributing the maximum amount of regular TSP contributions for which they are eligible, can make supplemental tax-deferred catch-up contributions (up to \$3,000 in 2004) from their basic pay.

In-Service Withdrawals. While you are employed by the federal government, you may withdraw your money after age 59½ or for financial hardship. Read the booklet “TSP In-Service Withdrawals,” available on the TSP website at www.tsp.gov, for more information.

Portable Benefits. You may transfer money from traditional IRAs or other eligible employer plans into your TSP account. If you leave government service, you can ask the TSP to transfer certain types of withdrawal payments to a traditional IRA or to an eligible employer plan that accepts such transfers.

Choice of Post-Separation Withdrawal Options. You may choose to withdraw your account in a single payment, monthly payments, life annuity, or any combination of these options. Refer to the booklet “Withdrawing Your TSP Account After Leaving Federal Service” for more details. The booklet is available on the TSP’s website at www.tsp.gov.

When Agency Contributions Begin

New FERS employees must wait a specified period before they can receive agency contributions. Depending on when you were hired as a FERS employee, your eligibility for agency contributions begins as follows:

If you were hired:	You are eligible for Agency Automatic (1%) and Matching Contributions
July 1 – November 30, 2002	First full pay period in June 2003*
December 1, 2002 – May 31, 2003	First full pay period in December 2003
June 1, 2003 - November 30, 2003	First full pay period in June 2004

*Eligibility dates changed because TSP open season dates and the associated election periods changed in the fall of 2002.

If you are a rehired FERS or CSRS employee, or if you have questions about your eligibility, consult your agency personnel office.

Allocating Contributions Among TSP Funds

You can allocate your contributions by using the TSP Web site, the ThriftLine ((504) 255-8777), or Form TSP-50, Investment Allocation. If you are new to the TSP and you have never made a contribution allocation, all contributions to your account will be invested in the G Fund until you make an allocation. You may change your contribution allocation at any time. To redistribute money already in your account, you must make an interfund transfer.

Investment Options Under the TSP

You have a choice of five investment funds under the TSP: the G, F, C, S, and I Funds. Each of these funds is explained below.

The G Fund. The Government Securities Investment Fund is invested in short-term non-marketable U.S. Treasury securities that are specially issued to the TSP. The G Fund interest rate is a weighted average of market rates of return on outstanding U.S. Treasury securities with 4 or more years to maturity.

There is no credit risk (risk of non-payment of principal or interest) for the Treasury securities in the G Fund. In addition, market risk (risk that investments may fluctuate in value as interest rates change) is eliminated by the Board’s current policy of investing the G Fund in short-term rather than longer-term securities. However, G Fund rates of return may well be lower than those of the other TSP Funds over the long term.

The F Fund. The Fixed Income Index Investment Fund is invested in a bond index fund that tracks the Lehman Brothers U.S. Aggregate (LBA) bond index. This index consists primarily of high-quality fixed-income securities representing the U.S. Government, mortgage-backed, corporate, and foreign government sectors of the U.S. bond market.

The F Fund offers the potential for increased rates of return relative to the G Fund over the long term, especially in periods of generally declining interest rates. At such times, the market value of the bonds held in the F Fund should increase, unlike those of the short-term securities held in the G Fund. Unlike the G Fund, the F Fund carries credit risk, market risk, and prepayment risk. Thus, the F Fund also has the potential for negative returns, which would result in losses.

The TSP Stock Funds. The C, S, and I Funds are stock index funds. The advantages of investing in stock index funds are: (1) the potential for the relatively high investment returns that are sometimes available from stocks; (2) diversification among a broad range of stocks, which mitigates the effect on overall returns from the poor performance of an individual security or industry; and (3) relatively low investment management fees and trading costs.

The main risk of investing in a stock index fund is that it may experience a sharp decline with unfavorable changes in overall economic conditions. The total return on a stock fund could be negative, resulting in a loss.

The C Fund. The Common Stock Index Investment Fund is a large company stock fund. The C Fund tracks the Standard & Poor's 500 (S&P 500) stock index, which consists of the stocks of 500 companies traded in the U.S. stock markets.

The C Fund gives you the opportunity to invest in a diversified portfolio of large U.S. companies. The risk of investing in the C Fund is that the value of stocks can decline sharply, and the total return on the C Fund could be negative, resulting in a loss.

The S Fund. The Small Capitalization Stock Index Investment Fund is the TSP's medium and small company stock fund. The S Fund tracks the Wilshire 4500 stock index, which consists of the stocks of U.S. companies not included in the S&P 500 index.

The S Fund gives you the opportunity to further diversify your stock investments. The Wilshire 4500 index is the broadest measure of the U.S. stock markets that excludes the companies in the S&P 500 index. Thus, the S Fund in combination with the C Fund covers virtually the entire U.S. stock market.

Investing in the S Fund includes the additional risk associated with stocks of mid-size and smaller companies, which tend to be more volatile than the stocks of the larger companies in the C Fund's S&P 500 index.

The I Fund. The International Stock Index Investment Fund is the TSP's foreign company stock fund. The I Fund tracks the Europe, Australasia, and Far East (EAFE) stock index, which consists of common stocks of large international companies in 21 countries. The I Fund gives

you the opportunity to further diversify your stock investments to include stock markets of developed countries outside the U.S.

The additional risk of investing in the I Fund is that I Fund investments include both the increased volatility of foreign markets and the risk of foreign currency fluctuations.

If you choose to invest in the F, C, S, or I Fund, you must acknowledge the risks involved. There is no assurance that future rates of return will replicate previous rates of return.

Changing the Way Your Account Is Invested

You can change the investment of money already in your account by requesting an interfund transfer. You can make your request on the TSP Web site (www.tsp.gov), the Thriftline ((504) 255-8777), or on Form TSP-50, Investment Allocation. Interfund transfers are processed on each business day. The TSP will send you a confirmation of the transfer. (To change the way your future contributions are invested, you must make a contribution allocation.)

Keeping Track of Your Account

The TSP will send you quarterly participant statements showing your account activity for the previous 3 months, or you may elect to receive your statement on-line. Check all of the information on your statement, including your address. Your statement and other important mailings are sent to the address that your agency reports to the TSP record keeper. Contact your agency personnel office if any corrections are necessary. (If you are separated from federal service, contact the TSP Service Office.) You can also find out your account balance by visiting the TSP Web site or by calling the ThriftLine at (504) 255-8777.

Spouse's Rights

Spouses' rights requirements apply to all loans, in-service withdrawals, and post-employment withdrawals.

Loans and In-Service Withdrawals. If you are a married FERS participant, your spouse must give written consent to your loan or in-service withdrawal request. If you are a married CSRS participant, your spouse will receive a notification of your loan application or withdrawal request.

Post-Separation Withdrawals. Spouses' rights requirements apply to vested accounts of more than \$3,500. If you are a married FERS participant, your spouse is entitled to a prescribed joint and survivor annuity. If you select any other withdrawal option, your spouse must first waive his or her right to the prescribed annuity. If you are a married CSRS participant, the TSP must notify your spouse of any withdrawal election.

Special Information Services

TSP Web site: www.tsp.gov

To get the most up-to-date information or to request transactions, go to the TSP Website at www.tsp.gov. You can get daily and historical share prices, monthly and historical rates of return for the five TSP investment funds and related indexes, the current loan interest rate and annuity

interest rate index, and the most recent copies of TSP materials. You can also use the interactive calculators to project the growth of your account and to estimate loan payments, monthly payments, or annuity payments.

Using your Social Security number (SSN) and your TSP Personal Identification Number (PIN), you can enter the secure area of the Web site to find out your daily account balance in shares and dollars, the amount available for you to borrow, your outstanding loan balance and prepayment amount, and the status of a loan or withdrawal request. You can change or replace your PIN, change the allocation of your future payroll contributions among the five TSP funds, request an interfund transfer, initiate (and in some cases complete) a loan or withdrawal, and reamortize your loan.

ThriftLine: (504) 255-8777

The ThriftLine is an automated service accessible through any touch-tone telephone, 24 hours a day, 7 days a week. **It is not toll-free.** You can call for the most recent rates of return, the current loan interest rate, and the current annuity interest rate index. You can hear TSP news and change or replace your PIN. You can also speak to a participant service representative.

With your SSN and TSP PIN, you can check your account balance, and execute certain transactions, as well as find out the amount available for you to borrow, your outstanding loan balance, and your prepayment amount.

Text Telephone: (504) 255-5113

Hearing-impaired participants can contact the TSP Service Office, Monday – Friday, 7:00 a.m. – 4:30 p.m., Central time.

Flexible Spending Accounts

The newest benefit now being offered to federal employees is the federal government's flexible spending account program, known as "FSAFEDS." Under FSAFEDS, federal workers can set aside pre-tax dollars into a Health Care Flexible Spending Account (HCFSA) and/or a Dependent Care Flexible Spending Account (DCFSA) to pay for certain expenses. Similar to programs offered in the private sector, flexible spending accounts are designed to help federal employees save money in taxes.

FSAFEDS launched in 2003, and the Office of Personnel Management (OPM) has contracted with a company called SHPS, Inc. to manage it. Open seasons for FSAFEDS will be held in conjunction with the Federal Employees Health Benefits (FEHB) open season, which occurs in November and December of each year. Unless you are a new hire or newly eligible for the program, you can only enroll in FSAFEDS during the open season, and your election will become effective the following January 1st.

With the Health Care FSA, federal employees can use pre-tax dollars to pay for certain health care expenses that are not reimbursed by the FEHBP or any other source, and not claimed on the participant's income tax return. The maximum amount an employee may set aside in any tax year for the Health Care Flexible Spending Account is \$4,000. The minimum annual election for a Health Care Flexible Spending Account is \$250 per account. **Note that the Health Care FSA does not replace your health insurance;** it simply pays for your out-of-pocket health care expenses with pre-tax dollars.

The Dependent Care FSA lets employees use pre-tax dollars to pay for eligible dependent care expenses, such as child care expenses or expenses for an adult who is disabled. For the Dependent Care FSA, employees can set aside up to \$5,000 per year (\$2,500 if the employee is married and filing a separate income tax return). The minimum annual election for a Dependent Care Flexible Spending Account is \$250 per account.

Under the program, employees generally pay the health care or dependent care expenses up front, and then submit a claim form to get reimbursed for the expenses out of their FSAs. Some FEHB plans, however, have teamed with FSAFEDS to provide for "automatic reimbursement." With automatic reimbursement, the employee does not have to complete a claim form and submit it to FSAFEDS. Instead, once the participating FEHB plan processes the employee's medical, dental, and/or prescription claims, it will forward the employee's out-of-pocket expenses electronically to FSAFEDS for automatic reimbursement to the employee's HCFSA.

A Brief Overview

There are several things you should know about FSAFEDS. First, participation in the program is entirely voluntary. You do not have to participate if you do not want to.

Second, you must elect an FSA annually. If you elect to participate in the FSA program, your election is good for only one year. You must make an election each year you want to participate.

Third, unlike the FEHBP, there are no government contributions to the program. All of the money contributed to the FSA is contributed by you. The benefit to you, if you decide to participate, is that the money you contribute to an FSA will be pre-tax – instead of after-tax – dollars. Thus, the program helps you reduce your taxable income by allowing you to put money in an FSA. The money for your qualified medical expenses or dependent care expenses then comes out of your FSA, so that you are paying for these expenses with before-tax, instead of after-tax, dollars.

An example of how this works is as follows. Say you earn \$55,000 a year and you set aside \$2,600 in a Dependent Care FSA for child care expenses and \$1,500 in a Health Care FSA for medical expenses. Because you are using FSAs, you reduce your taxable income by \$4,100 (\$2,600 plus \$1,500). Therefore, instead of being taxed on \$55,000 in income, you would be taxed on \$50,900 in income (\$55,000 minus \$4,100). This means that the FSAs would generate a tax savings for you of \$1,145.

To help you figure out how much you could save in taxes by using FSAs, click on the calculator at https://www.fsafeds.com/fsafeds/fsa_calculator.asp.

Fourth, be aware that if you do not use all of the money in your FSA in a given year, **you will lose that money**. If there is extra money in your FSA at the end of the year, that money will not “roll over” for later use, nor will it be returned to you. **This means that you must plan carefully to make sure that you do not have money left over in your FSA at the end of the year.** Moreover, if you realize during the year that you have elected to put too much money into an FSA, you cannot change your allotment unless you have what’s called a “Qualified Status Change.” A few examples of a “qualified status change” include a change in your marital status (you get married, divorced, legally separated, or your spouse dies); a change in the number of your dependents (a birth, adoption, or a death of a dependent); and a change in employment status. For more examples of what constitutes a qualified status change and its impact, click on <https://www.fsafeds.com/fsafeds/downloads/qsfact.pdf>.

Fifth, while there is a fee associated with participating in the Federal FSA Program, there is no cost to the participant. In November 2003, legislation was enacted that requires federal departments and agencies that provide or plan to provide the FSA program for their employees to pay the administrative fee on behalf of their employees.

Employee Eligibility

Eligible participants for the Health Care FSA are those federal employees **eligible** to enroll in the FEHB Program. (Note that **eligibility** for the FEHBP is the key – you do not need to be enrolled in the FEHBP to elect an FSA.) All eligible federal employees of executive branch agencies and other federal employers who adopt the FedFlex plan may make an election immediately upon entry on duty, with the exception that temporary federal employees are eligible upon completion of one year of continuous service in the job position.

In addition to employees eligible for a Health Care FSA, eligible participants for the Dependent Care FSA include employees with temporary, seasonal and intermittent appointments who are expected to work at least six months, as well as all temporary and seasonal employees. All eligible federal employees of executive branch agencies and adopting employers may participate in the Dependent Care FSA immediately upon their entrance on duty.

If you are a new employee eligible for FSAFEDS, you will have 60 days or until October 1st of any Plan Year to make an election to participate in either the HCFSA or DCFSA. These elections will be binding throughout the Plan Year unless you experience a Qualified Status Change (see above). If you are hired on or after October 1st, you are ineligible to participate in that Plan Year, but you can elect an FSA during the FEHB open season held each fall for the following Plan Year.

Only current employees may set aside income in flexible spending accounts. By law, federal retirees are not eligible to maintain FSAs. (Non-federal retirees are ineligible as well.) As stated above, employees can elect to participate during the annual open season, which is held in November and December. Employees who wish to re-enroll in the program **must** do so each year.

Eligible Health Care Expenses

As explained above, you can use a Health Care Flexible Spending Account (HCFSA) for reimbursement of health care expenses that are not paid by insurance. You can use your HCFSA to pay for expenses incurred by you and anyone you claim as a dependent on your federal income tax return.

Health care expenses that can be reimbursed under a HCFSA are those that:

- cannot be taken as a deduction from your federal income tax return in any tax year even though they qualify as eligible expenses that could be deducted. You may not take both options - you must either declare them on your taxes **or** get reimbursed for those expenses through your FSA;
- are not covered, paid, reimbursed, or reimbursable from any other source;
- do not exceed the amount allotted for your HCFSA for the Plan Year;
- do not include reimbursements for premiums for other health insurance; and
- while not limited to the dollar amount in your HCFSA at the time a claim is reimbursed, are limited to the total amount you elected (minus any amounts you have been reimbursed for claims submitted earlier in the Plan Year).

Note that under the federal government's FSA program, insurance premiums are not reimbursable expenses. This means that you cannot be reimbursed out of your HCFSA for Long Term Care premiums or Temporary Continuation of Coverage premiums.

Some of the health care expenses that are reimbursable under a HCFSA are:

- Co-payments, coinsurance and deductibles (but not premiums)
- Acupuncture
- Childbirth classes
- Chiropractic care

- Dental care
- Diabetic supplies
- Expenses that exceed medical, dental or vision plan limits (including dollar or visit maximums or amounts that exceed plan allowances, such as for out-of-network providers)
- Eye exams, glasses (including prescription sunglasses), and contact lenses
- Hearing aids
- Home medical equipment (crutches, wheelchairs, canes, oxygen, respirators, etc.)
- Infertility treatment
- Laser eye surgery
- Mattresses and bed boards (with a doctor's certification)
- Medical supplies
- Occupational therapy
- Orthodontia
- Orthotics
- Over-the-counter medications (not including vitamins and dietary supplements)
- Physical therapy
- Prescription drugs
- Preventive care
- Prosthetic appliances
- Psychotherapy
- Remedial reading (with a doctor's certification)
- Smoking cessation programs (including over-the-counter treatments)
- Specialized equipment or services for disabled persons (such as auto equipment, Braille books, guide animals, etc.)
- Speech therapy
- Transportation expenses related to medical care
- Water fluoridation services (with a doctor's certification)
- Well-baby and well-child care
- Whirlpool baths (with a doctor's certification)
- Wigs for hair loss due to a disease (with a doctor's certification)

Some ineligible expenses include:

- Cosmetic services (unless required to restore appearance or function due to disease or illness)
- Expenses you claim on your income tax return
- Expenses reimbursed by other sources, such as insurance plans
- Fees for exercise or health clubs (unless medically necessary)
- Hair transplants
- Illegal treatments, operations or drugs
- Insurance premiums, including those for long-term care
- Postage and handling fees
- Weight loss programs for general well-being

Eligible Dependent Care Expenses

A Dependent Care Flexible Spending Account (DCFSA) is designed for reimbursement of dependent care expenses that allow you and your spouse to work, look for work, or to attend school full-time. The care can be provided in or out of your home.

You can use your DCFSA to pay for eligible expenses for the care of your dependent children under the age of 13, or for any person of any age whom you claim as a dependent on your federal income tax return and who is mentally or physically incapable of caring for him or herself.

Dependent care expenses that can be reimbursed under the DCFSA are those:

- limited to amounts paid for services rendered in your home or amounts paid for services rendered outside of your home for the care of a qualified dependent. The services rendered must be necessary to allow you and your spouse to work, look for work, or attend school full-time;
- limited to the amount in your DCFSA at the time a claim is reimbursed; and
- not covered, paid, reimbursed, or reimbursable from any other source.

Some of the dependent care services that are reimbursable under a DCFSA are:

- Child care (at a day camp, nursery school or by a private sitter)
- Late pickup fees (from a caregiver)
- Before-school and after-school care (must be kept separate from tuition expenses)
- Care of an incapacitated adult who lives with you at least 8 hours a day
- Expenses for a housekeeper whose duties include caring for an eligible dependent

Some ineligible expenses include:

- Education or tuition fees
- Late payment fees
- Overnight camps
- Employment agency fees for finding a dependent care provider
- Sports lessons, field trips, clothing
- Transportation to and from the dependent care provider

Making A Claim

Generally, to make a claim you must complete and submit a claim form, along with supporting documentation, with SHPS to be reimbursed. You can obtain a copy of a claim form by going to <https://www.fsafeds.com/fsafeds/download.asp>.

SHPS says that from the time you submit your claim form, it should normally take no more than 5 to 7 business days until you receive your funds if you use direct deposit through Electronic Funds Transfer (EFT). Remember, though, that some banks impose a 3-day hold on funds transferred electronically, so that the money may not be posted to your account immediately. Check with your bank if you have questions regarding EFT deposits. According to SHPS, the fastest way to get reimbursed is to fax your claims and use the EFT option.

For More Information

For more information on FSAFEDS, go to <http://www.fsafeds.com>.

Federal Employees Retirement System

The Federal Employees Retirement System (FERS) became effective in 1987, and almost all new federal civilian employees hired after 1983 are automatically covered by this new retirement system. Many features of FERS are “portable” so that employees who leave federal employment may still qualify for the benefits. FERS is also a flexible system, allowing employees to choose the coverage that best suits them. FERS is a three-tiered retirement plan. The three components are Social Security Benefits, Basic Benefit Plan, and Thrift Savings Plan Benefits.

The first available part of the retirement benefit is Social Security. It provides monthly payments if you are retired and have reached at least age 62, monthly benefits if you become disabled, monthly benefits for your eligible survivors, and a lump sum benefit upon your death.

The basic benefit portion is financed by a very small contribution from the employee and from the Government. Basic Plan Benefits are a monthly payment depending on the employee’s pay and length of service. As in most retirement plans, a formula is used to compute the payments under the Basic Benefit Plan. The government averages the highest 3 consecutive years of basic pay. This “high-3” average pay, together with the employee’s length of service, are used in the benefit formula. Employees who meet the criteria also receive a “Special Retirement Supplement,” which is paid as a monthly benefit until the employee reaches age 62. This supplement approximates the Social Security benefit earned by the employee while they were employed by the federal government.

The third part of the FERS benefit is the Thrift Savings Plan. The Thrift Savings Plan is a tax-deferred retirement savings and investment plan that offers the same type of savings and tax benefits that many private corporations offer their employees under 401(k) plans.

Under FERS, you pay full Social Security taxes and a small contribution to the Basic Benefit Plan. In addition, your agency puts an amount equal to 1% of your basic pay each pay period into your Thrift Savings Plan (TSP) account. You are able to make tax-deferred contributions to the TSP and a portion is matched by the government. The three components of FERS work together to give you a foundation for your retirement years.

Social Security Benefits

The first part of your benefit is Social Security. The term “Social Security” means benefit payments provided to workers and their dependents who qualify as beneficiaries under the Old-Age Survivors, and Disability Insurance (OASDI) programs of the Social Security Act. OASDI replaces a portion of earnings lost as a result of retirement, disability, or death. It is designed to provide benefits that replace a greater percentage of earnings for lower-paid workers than for higher-paid workers. This means that Social Security benefits are more important for lower-paid workers than higher-paid workers.

As an employee with FERS coverage, you have Social Security coverage. You also are covered under Social Security's Medicare Hospital Insurance program. This pays a portion of hospital expenses incurred while you are receiving Social Security disability benefits or retirement benefits at age 65 or older.

Social Security programs provide:

- Monthly benefits if you are retired and have reached at least age 62, and monthly benefits during your retirement for your spouse and dependents if they are eligible;
- Monthly benefits if you become totally disabled for gainful employment and benefits for your spouse and dependents if they are eligible during your disability;
- Monthly benefits for your eligible survivors; and
- A lump sum benefit upon your death.

To become eligible for benefits, you and your family must meet different sets of requirements for each type of benefit. An underlying condition of payment of most benefits is that you have paid Social Security taxes for the required period of time.

The amount of monthly benefits you receive is based on three fundamental factors:

- Average earnings upon which you have paid Social Security taxes, which are adjusted over the years for changes in average earnings of the American work force;
- Family composition (for example, whether you have a spouse or dependent child who may be eligible for benefits); and
- Consumer Price Index (CPI) changes that occur after you become entitled to benefits.

Benefits are subject to individual and family maximums. Once benefits begin, their continuation may depend upon your meeting a variety of conditions. For example, if you have earnings that exceed specified amounts while you are under age 70, your Social Security benefits will be reduced or stopped. There are special Social Security rules that may affect the benefits of federal employees, including FERS participants. If you previously had some service that was covered by the Civil Service Retirement System (CSRS) (or another similar retirement system for federal employees), your Social Security benefits may be affected by the Windfall Elimination Provision. If you transferred to FERS and do not complete 5 years of service under FERS, any spousal benefit you are entitled to under Social Security may be reduced because of the Government Pension Offset. Check with your agency's Human Resource office or your local Social Security office for more details if you think either of these provisions may affect your benefits.

Social Security Taxes

Most of the cost of Social Security is paid for through payroll taxes. Each year you pay a percentage of your salary up to a specified earnings amount called the "maximum taxable wage base." The federal government, as your employer, pays an equal amount. The percentage you each pay for old age, survivor, and disability insurance coverage is 6.20% of your earnings up to the maximum taxable wage base. The maximum taxable wage base increases automatically each year based on the yearly rise in average earnings of the American work force. The Social Security tax covers both the Old Age, Survivors, and Disability Insurance (OASDI) and

Medicare Hospital Insurance programs. The Medicare portion you and your agency each pay is 1.45% of your total pay. All wages are subject to the deduction for Medicare.

Basic Benefit Plan

The second part of the Federal Employees Retirement System (FERS) is the Basic Benefit plan. If you were automatically covered by FERS, or you elected to transfer from the Civil Service Retirement System (CSRS) to FERS, you will participate in the Basic Benefit plan.

Vesting

To be vested (eligible to receive your retirement benefits from the Basic Benefit plan if you leave federal service before retiring), you must have at least 5 years of creditable civilian service. Survivor and disability benefits are available after 18 months of civilian service.

Creditable Service

Creditable service generally includes:

- Federal civilian service for which contributions have been made or deposited.
- Military service, subject to a deposit requirement. To receive credit for military service, generally, you must deposit 3% of your military base pay. Interest begins 2 years after you are hired. With certain exceptions, you cannot receive credit for military service if you are receiving military retired pay. Also, see the note that follows on credit for National Guard service.
- Leaves of absence for performing military service or while receiving workers' compensation.

Unused sick leave is not converted into creditable service for any purpose. (There is a limited exception for CSRS employees who transfer to FERS.) Credit is not allowed for civilian service after 1988 when no contributions were withheld.

Note: Service in the National Guard, except when ordered to active duty in the service of the United States, is generally not creditable. However, you may receive credit for National Guard service, followed by federal civilian reemployment that occurs after August 1, 1990, when the following conditions are met:

- The service must interrupt civilian service creditable under the Civil Service Retirement System (or FERS) and be followed by reemployment in accordance with the appropriate chapter of the laws concerning Veterans Benefits; and
- It must be full-time (and not inactive duty), and performed by a member of the U.S. Army National Guard, or U.S. Air National Guard; and
- It must be under a specified law and you must be entitled to pay from the U.S. (or have waived pay from the U.S.) for the service.

The deposit for National Guard service that meets these criteria is limited to the amount that would have been deducted from your pay for retirement if you had remained in the civilian service.

Contributions

Your contribution to the Basic Benefit Plan is the difference between 7% of your basic pay and Social Security's old age, survivor, and disability insurance tax rate, or 0.80%.

Refunds

You may withdraw your basic benefit contributions if you leave federal employment. However, if you do, you will not be eligible to receive benefits based on service covered by the refund. There is no provision in the law for the redeposit of FERS contributions that have been refunded.

Retirement Options

There are three categories of retirement benefits in the Basic Benefit Plan:

- * Immediate and Postponed
- * Early
- * Deferred

Eligibility is determined by your age and number of years of creditable service. In some cases, you must have reached the Minimum Retirement Age (MRA) to receive retirement benefits. The following chart shows the MRA.

Minimum Retirement Age

If you were born:	Your MRA is:
Before 1948	55
in 1948	55 and 2 months
in 1949	55 and 4 months
in 1950	55 and 6 months
in 1951	55 and 8 months
in 1952	55 and 10 months
in 1953 through 1964	56
in 1965	56 and 2 months
in 1966	56 and 4 months
in 1967	56 and 6 months
in 1968	56 and 8 months
in 1969	56 and 10 months
in 1970 and after	57

Immediate or Postponed Benefits

If you meet one of the following sets of age and service requirements, you are entitled to an immediate retirement benefit:

Age	Years of service
62	5
60	20
MRA	30
MRA	10*

* You will receive a reduced benefit unless receipt of the retirement benefit is delayed to lessen or avoid the age reduction. “Reduced benefit” means if you retire at the minimum retirement age with at least 10 but less than 30 years of service, your benefit will be reduced at the rate of 5/12’s of 1% for each month (5% for each year) you are under age 62, unless you have 20 years of service and your annuity begins at age 60 or later. You can avoid part or all of the reduction by postponing the commencing date of your annuity.

Early Retirement

The early retirement benefit is available in certain involuntary separation cases and in cases of voluntary separations during a major reorganization or reduction in force. To be eligible, you must meet the following requirements:

Age	Years of service
50	20
Any age	25

Deferred Retirement

If you leave federal service before you meet the age and service requirements for an immediate retirement benefit, you may be eligible for deferred retirement benefits. To be eligible, you must have completed at least 5 years of creditable civilian service. You may receive benefits when you meet one of the following sets of age and service requirements:

Age	Years of service
62	5
60	20
MRA	30
MRA	10*

* You will receive a reduced benefit unless receipt of the retirement benefit is delayed to lessen or avoid the age reduction. “Reduced benefit” means if you retire at the minimum retirement age with at least 10 but less than 30 years of service, your benefit will be reduced at the rate of 5/12’s of 1% for each month (5% for each year) you are under age 62, unless you have 20 years of service and your annuity begins at age 60 or later. You can avoid part or all of the reduction by postponing the commencing date of your annuity.

Benefit Formula

Your benefit is based on your “high-3 average pay.” This is figured by averaging your highest basic pay over any 3 consecutive years of creditable service. Generally, your benefit is calculated according to this formula:

$$\frac{1\% \text{ of your high-3 average pay}}{\text{times}} \times \text{years of creditable service.}$$

If you retire at age 62 or later with at least 20 years of service, a factor of 1.1% is used rather than 1%. To determine your length of service for computation, add all of your periods of

creditable service, then eliminate from the total any fractional part of a month (less than 30 days).

Depending on the category of retirement benefits you receive, your benefit may be reduced as described in the Retirement Options section above. For example, the total could be reduced if you elect to retire at the minimum retirement age before completing 30 years of service.

Special Retirement Supplement

If you meet certain requirements, you will receive a Special Retirement Supplement that is paid as an annuity until you reach age 62. This supplement approximates the Social Security benefit earned while you were employed by the federal government. You may be eligible for a Special Retirement Supplement if you retire:

- After the Minimum Retirement Age (MRA) with 30 years of service;
- At age 60 with 20 years of service; or
- Upon involuntary or early voluntary retirement (age 50 with 20 years of service, or at any age with 25 years of service) after OPM determines that your agency is undergoing a major reorganization, reduction-in-force (RIF) or transfer of function. You will not receive the Special Retirement Supplement until you reach your MRA.

If you transfer to FERS from the Civil Service Retirement System (CSRS), you must have at least one full calendar year of FERS-covered service to qualify for the supplement.

If you have earnings from wages or self-employment that exceed the Social Security annual exempt amount, your Special Retirement Supplement will be reduced or stopped.

Survivor Benefits

The Basic Benefit Plan provides benefits for survivors of federal employees and retirees.

Spouses

If you are married, have 18 months of civilian service, and die while you are an active employee, your surviving spouse receives a lump sum payment plus the higher of ½ of your annual pay rate at death or ½ of your high-three average pay.

If you had 10 years of service, your spouse also receives an annuity equaling 50% of your accrued basic retirement benefit. These benefits are paid in addition to any Social Security, group life insurance, or savings plan survivor benefits.

To be eligible for benefits, you and your spouse must have been married for at least 9 months, or there must be a child born of the marriage, or your death must be accidental.

If you die while you are a retiree, then your annuity is automatically reduced to provide spouse survivor benefits unless those benefits are jointly waived in writing by the retiree and the spouse before retirement.

Your annuity is reduced 10% to give your surviving spouse an annuity of 50% of your unreduced benefit plus a special supplemental annuity payable until age 60, if your spouse will not be

eligible for Social Security survivor benefits until age 60. You and your spouse may choose instead to have your annuity reduced by 5% to give your spouse an annuity of 25% of your unreduced benefit at your death. Separate provisions apply to spouses of disabled annuitants.

Former Spouses

A former spouse may receive survivor benefits as provided in a retiree election or a qualifying court order.

Children

If you have 18 months of civilian service and die while you are an active employee, or if you have retired, your children may be eligible to receive an annuity. This benefit is payable to each unmarried child:

- up to age 18;
- up to age 22 if a full time student;
- at any age if the child became disabled before age 18.

The amount of the FERS benefit depends on the number of children and if the children are orphaned. The total children's benefit is reduced dollar for dollar by any Social Security children's benefits that may be payable.

Disability Benefits

FERS disability benefits can help you replace part of your income if you are unable to work for a prolonged period.

You are considered disabled under FERS if you are unable to perform useful and efficient service in your position because of disease or injury. However, you will not be considered disabled if you decline your agency's offer of a position which accommodates your disability and is at the same grade or pay level and is within your commuting area.

You may also qualify for Social Security disability benefits if you are unable to work in any substantial gainful activity.

Eligibility

To qualify for FERS disability benefits, your disabling condition must be expected to last at least 1 year, and you must have at least 18 months of creditable civilian service.

The Benefits

The first year: 60% of your high-3 average pay minus 100% of any Social Security disability benefits to which you are entitled.

After the first year and until age 62, if your disability prevents you from performing your job and you do not qualify for Social Security disability benefits, your benefit will be 40% of your high-3 average pay.

If you do qualify for Social Security benefits, your FERS disability benefit will be reduced by 60% of the Social Security benefit to which you are entitled. The resulting total you receive from

both FERS and Social Security will be at least 40% of your high-3 plus 40% of your Social Security disability benefits.

If your earned annuity rate (1% x high 3 average salary x years of service) is higher than the above rates after the reduction for Social Security, you will receive the higher benefit.

When you reach age 62, your disability benefit will be recomputed. Essentially, you will receive the annuity you would have received if you had not been disabled, but had continued working until age 62. For purposes of this recomputation, your average salary will be increased by all FERS cost-of-living adjustments that took effect while you were receiving a disability annuity.

If you are a disability retiree under age 60 and your total income from work in a calendar year exceeds 80% of the current pay level of your former job, the disability benefits will be discontinued. You also may be required to provide proof periodically that you have not recovered from your disability.

Cost-of-Living Adjustments (COLA's)

Survivors and disability retirees receive a COLA regardless of their ages; however, disability retirees receiving 60% of their average pay do not receive a COLA during the first year. All other retirees begin to receive COLA's at age 62.

The amount of the annual COLA percentage is based on the increase in the Consumer Price Index (CPI):

<u>Increase in CPI</u>	<u>Annual COLA Percentage</u>
Up to 2%	Same as CPI increase
2% to 3%	2%
3% or more	CPI increase minus 1%

The Special Retirement Supplement for retirees is not increased by COLA's; the supplement for survivors is increased by COLA's.

Form of Payment

FERS Basic Benefits are a monthly annuity that is paid the first business day of the month after it accrues. For example, the payment for December is made on January 2.

Thrift Savings Plan

The third part of your Federal Employees Retirement System (FERS) benefit is the Thrift Savings Plan (TSP). The TSP is a tax-deferred retirement savings and investment plan that offers you the same type of savings and tax benefits that many private corporations offer their employees under 401(k) plans. By participating in the TSP, you have the opportunity to save part of your income for retirement, receive matching agency contributions, and reduce your current taxes.

Your thrift account is the part of your retirement that you control. You decide how much of your pay to put in your thrift account, how to invest it, and, when you retire, you decide how you want your money paid out.

The best way to assure that your retirement income meets your needs is to start investing in the Thrift Savings Plan at the beginning of your federal service, and to continue to do so throughout your career. It is particularly important for higher-paid employees to save enough through the TSP since Social Security replaces less income of higher-paid workers than it does for lower-paid workers. See Chapter 3 on the Thrift Savings Plan for details.

Special Groups: Firefighters, Law Enforcement Officers, and Air Traffic Controllers

These groups of employees receive an unreduced benefit at age 50 with 20 years of service, or at any age with 25 years of service. If you are in one of these employee groups, you contribute an additional 0.5% of pay to the Federal Employees Retirement System (FERS). Your annual annuity is 1.7% of your high-3 average pay times years of service plus 1.0% of your high-3 average pay times years of service exceeding 20.

You also receive a Special Retirement Supplement until age 62 that approximates the Social Security benefit earned in federal service. After you reach the Minimum Retirement Age (MRA), if you have earnings from wages or self-employment that exceed the Social Security annual exempt amount, your supplement will be reduced or stopped. In addition, you are entitled to an annual Cost-of-Living Adjustment (COLA), regardless of your age.

Part-Time Employees

In calculating the annuity for employees with part-time service, the average high-3 consecutive years of pay will be based on the full-time pay rate. The benefit based on the full-time rate is reduced according to the part-time schedule.

Enrolling in FERS

New Employees

Most new employees hired after December 31, 1983 are automatically covered by the Federal Employees Retirement System (FERS). The exceptions are employees in appointments that are limited to 1 year or less, most intermittent employees, anyone who is not eligible for Social Security coverage, or certain persons with non-federal service which is creditable under the Civil Service Retirement System (CSRS).

Rehires and Conversions

The general rules on whether you are covered by CSRS, CSRS Offset, or FERS after a break in service or conversion from one type of appointment to another are stated below. Just how those rules apply to you must be determined by your personnel office.

If you leave federal government service and return within 1 year and you were previously covered under CSRS (without Social Security), then you will generally be covered by CSRS upon reemployment. However, you may elect within 6 months of reemployment to transfer to FERS, in which case you will also be covered by Social Security.

If you leave federal government service and return after more than 1 year and you were previously covered under CSRS, then you are automatically covered by Social Security and:

- If you have less than 5 years under CSRS, you are automatically covered by FERS.
- If you have 5 or more years under CSRS, you are covered by CSRS Offset. Your CSRS contributions are reduced by 100% of your Social Security Old-Age, Survivor Disability Insurance (OASDI) fund taxes. Your CSRS benefit will be offset by any Social Security benefit attributable to your federal service.

In determining whether you have 5 years of service that is creditable under CSRS, count all civilian service as of your last separation from service, even though it may not have been covered by CSRS deductions, or you may have received a refund of CSRS deductions. You will receive credit for your CSRS service if you make any payments for your past service that may be required.

Even if you were never covered by CSRS, you are eligible for CSRS Offset Coverage if you had 5 years of creditable civilian service before January 1, 1987.

If you are rehired under CSRS or CSRS Offset, you may elect to transfer to FERS within 6 months of reemployment. If you elect to transfer to FERS, the following rules apply:

- Your credit in CSRS is frozen, but your combined CSRS and FERS annuity will be based on the average of your highest 3 consecutive years of pay;
- You will receive a full Civil Service Retirement System (CSRS) cost of living adjustment on the CSRS portion of your annuity;
- Your service after the date of transfer is treated under the Federal Employees Retirement System (FERS) rules. (If you were under CSRS Offset, your offset service is also treated under rules.) In addition, all of your service is treated under FERS rules if you have less than 5 years of non-Offset CSRS service when you transfer;
- All service (CSRS and FERS) counts toward years needed to be eligible for retirement, disability, survivor, and Thrift Savings Plan benefits under FERS;
- All survivor and disability benefits are paid under FERS rules;
- Unused sick leave is credited under CSRS rules based on the amount accumulated at the date of transfer or date of retirement, whichever is lower;
- You have Social Security coverage when you enroll in FERS;
- You will receive government contributions to your TSP account and avoid the 6-12 month waiting period for participation.

If you are converted from an appointment that is excluded from FERS coverage to an appointment that is not excluded, generally you will automatically be covered by FERS. If you are not automatically covered by the plan, you will have a 6-month opportunity to transfer to it.

Civil Service Retirement System

The Civil Service Retirement System (CSRS) originated in 1920 and has provided retirement, disability and survivor benefits for most civilian employees in the federal government. Prior to that time, many of the civilian employees in the federal government simply worked until they died because there was no means of support for them if they were to quit their jobs. In fact, one Congressman noted in 1920 that “any observing person who during the last third of a century has walked through the corridors of the departments of the government, or watched the clerks entering the various government buildings in the mornings or leaving them at the close of day, must have noticed the large proportion of elderly and infirm among them.”

While the original intent of the system was, in part at least, to provide for a means of replacing elderly and infirm employees, the system has evolved into an employee-oriented system. Since then, the Civil Service Retirement System has been a progressive element in the personnel management system. A strong retirement system is a significant part of the attraction to work for an employer, and has allowed the federal government to attract and retain a professional and dedicated workforce.

Upon enactment in 1920, over 4,000 employees, some in their 80's and 90's, took advantage of the new retirement law. The first to retire was Mr. Edwin B. Simonds, who was 89 years old and had worked in the Pension Office for 37 years. By the end of the year, over 6,000 people had retired. Employees with over 30 years of service received 60 percent of their average salary - averaged over the previous 10 years. The maximum benefit was \$720 a year.

Just as the functions of the retirement system have changed, so have its provisions. These changing provisions have enabled the Civil Service Retirement System to remain an important piece of the federal personnel management structure. The system was originally administered by the Department of the Interior until 1930, when it moved to the new Veterans Administration. But in 1934, it found a home with the Civil Service Commission, and in 1979, with the Office of Personnel Management.

Benefits have continued to evolve to the present time. They are now financed by both employee and government contributions to the retirement fund, and provide benefits based on length of service and the average salary over the highest three years of pay. This continuing need to modernize benefits resulted in the creation of a new Federal Employees Retirement System to replace the Civil Service Retirement System in 1987. However, there are still many civilian federal employees covered by the Civil Service Retirement System, and over 2 million people continue receiving Civil Service Retirement System retirement and survivor benefits each month.

When You May Retire

You may retire under the Civil Service Retirement System (CSRS) at the following ages, and receive an immediate annuity, if you have at least the amount of federal service shown:

Type of Retirement	Minimum Age	Minimum Service (Year)	Special Requirements
Optional	62	5	None
	60	20	None
	55	30	None
Special Optional	50	20	Special Optional - You must retire under special provisions for air traffic controllers or law enforcement and firefighter personnel. Air traffic controllers can also retire at any age with 25 years of service as an air traffic controller.
Early Optional	Any Age* 50*	25 20	Early Optional - Your agency must be undergoing a major reorganization, reduction-in-force, or transfer of function as determined by the Office of Personnel Management.
Discontinued Service	Any Age* 50*	25 20	Discontinued Service - Your separation must be involuntary and not a removal for misconduct or delinquency.
Disability	Any Age	5	Disability - You must be disabled for useful and efficient service in your current position and any other vacant position at the same grade or pay level within your commuting area and current agency for which you are qualified.**

* Annuity is reduced if under 55.

** Application must be prior to retirement, or within 1 year of separation, except in cases of mental incompetence.

How Annuities Are Computed

Your basic annuity is computed based on your length of service (which includes unused sick leave if you retire on an immediate annuity) and “high-3” average pay. To determine your length of service for computation, add all your periods of creditable service, and the period represented by your unused sick leave, then eliminate from the total any fractional part of a month. Your “high-3” average pay is the highest average basic pay you earned during any 3 consecutive years of service. Generally, your basic annuity cannot be more than 80 percent of your “high-3” average pay, unless the amount over 80 percent is due to crediting your unused sick leave.

Your yearly basic annuity is computed by adding: (a) 1.5 percent of your “high-3” average pay times service up to 5 years; (b) 1.75 percent of your “high-3” pay times years of service over 5 and up to 10; and (c) 2 percent of your “high-3” pay times years of service over 10.

Your basic annuity will be reduced if: (a) you retire before age 55 (unless you retire for disability or under the special provisions for law enforcement officers, air traffic controllers, and

firefighters); (b) you didn't make a deposit for service performed prior to October 1, 1982, during which no deductions were taken from your pay (non-deduction service after that date is not used in the computation of benefits if the deposit is not paid); (c) you didn't make a redeposit of a refund for a period of service that ended before October 1, 1990; or (d) you provide for a survivor annuitant.

Your annuity will be increased periodically by cost-of-living increases that occur after you retire. Your initial cost-of-living increase will be prorated based on how long you have been retired when that cost-of-living increase is granted.

Credit for Military Service

As a general rule, military service in the Armed Forces of the United States is creditable for retirement purposes if it was active service terminated under honorable conditions, and performed prior to your separation from civilian service for retirement. Military service performed on or after January 1, 1957 is normally creditable for Social Security benefits at age 62. Individuals first employed before October 1, 1982 have the option of either (1) making a 7 percent deposit for post-1956 military service, thereby avoiding a reduction in their annuity at age 62, or (2) not making the deposit and having their annuities reduced at age 62 if they are then eligible for Social Security benefits. Employees first hired by the federal government on or after October 1, 1982 must make the deposit or receive no credit at all, including eligibility to retire, for military service.

Disability Retirement

If you retire for disability, you may be guaranteed a minimum annuity equal to the smaller of: (a) 40 percent of your "high-3" average pay, or (b) the regular annuity obtained after increasing your service by the time between your retirement and your 60th birthday. This guaranteed minimum applies if you are under age 60 when you retire and your earned annuity based on your actual service is less than this minimum.

There is an exception, however. The guaranteed minimum does not apply if you are receiving military retired pay and/or VA compensation in lieu of all or part of the military retired pay. However, if your earned annuity plus your military benefit (or compensation) is less than what it would have been under the guaranteed minimum, the annuity is increased to bring it up to that level.

If You Retire Before Age 55

If you voluntarily retire during a major reorganization, reduction-in-force, or transfer of function, or if you are involuntarily separated and are younger than 55, your basic annuity will be reduced by one-sixth of 1 percent for each full month you are under 55.

There is no age reduction if you retire under the disability provision or under the special provisions for air traffic controllers, law enforcement officers, and firefighters.

If You Die in Service

If you die after 18 months of civilian service, your widow(er) will get an annuity, provided you were married for a total of 9 months. The 9-month requirement does not apply if your death is accidental or there is a child of the marriage.

Generally, your widow(er) is entitled to 55 percent of the basic annuity earned by your creditable service and average salary. However, if it will produce a higher annuity, your widow(er) will receive 55 percent of the guaranteed minimum benefit described under “Disability Retirement” above.

If you have a former spouse from whom you were divorced after May 6, 1985, he or she may receive, by court order, all or a part of the annuity that your widow(er) would otherwise get.

Your unmarried children will also be entitled to annuities if you die in service. Their annuities will continue until they reach age 18 - or age 22 if they remain in school full-time. The annuity of a child who is incapable of self support because of a disability incurred before age 18 will continue indefinitely unless the child becomes capable of self support.

Providing for Your Survivors on Retirement

If you are married when you retire, your annuity will be reduced to provide a full survivor annuity for your spouse (unless he or she consents to a lesser benefit). To provide for a survivor annuity, your annuity will be reduced by 2.5 percent of the first \$3,600, plus 10 percent of the annuity over \$3,600. The survivor annuity will be 55 percent of the amount of your annuity before this reduction. Note: If you were divorced after May 6, 1985, your former spouse may receive by court order, all or part of the survivor annuity that your current spouse would otherwise get. You can also elect a survivor annuity for a former spouse (but if you are married, you must get your spouse’s consent).

If you are not retiring for disability, and are in reasonably good health, you can provide a survivor annuity for a person who has an “insurable interest” in you, such as a relative who is in your care, or a current spouse who would not otherwise get a survivor annuity because of a court-ordered award to a former spouse. To provide this benefit, your annuity would be reduced from 10 to 40 percent depending on the difference in your age and the age of the person named. This reduction would be added to any reduction required to provide a survivor annuity for a spouse or former spouse.

If You Leave the Service

If you leave federal employment before you are eligible for an “immediate” annuity, you can either have your deductions returned or leave the money in the retirement fund. If you have completed at least 5 years of civilian service and you leave your money in the fund, you will be entitled to a “deferred” annuity at age 62.

Making Payments for Previous Service

If retirement deductions were not taken from your pay during certain periods of service, you will need to pay these deductions into the retirement fund to receive full credit for the service. If you had a refund of retirement deductions for prior service, you must repay this money into the

retirement fund to receive credit for service in your retirement benefits. Exception: If you retire (other than on disability) while owing a redeposit of a refund for service that ended before October 1, 1990, you will not be required to pay the redeposit in order to receive credit for that refunded service. Instead, full credit for the refunded service will be allowed in computing your annuity, but the annuity will be actuarially reduced.

Alternative Form of Annuity

Some retirees can choose to receive an Alternative Form of Annuity if they are eligible due to a life-threatening illness or other critical medical condition. Under this option, you receive a reduced monthly benefit, plus a lump sum payment equal to all your unrefunded contributions to the retirement fund. The amount of reduction in your monthly benefit depends on your age at the time you retire and the amount of your retirement contributions. Your election of an Alternative Form of Annuity will not affect the potential survivor annuity payable to your spouse or children. However, you must have your spouse's consent to make this election.

You cannot choose the Alternative Form of Annuity if you are retiring for disability or if you have a former spouse who is entitled to court-ordered benefits based on your service. In addition, you may not elect the Alternative Form of Annuity unless you have a life-threatening medical condition.

CSRS Offset Employees

You are a "CSRS Offset" employee if you are one of the employees covered by CSRS and Social Security at the same time. You will be eligible to receive a CSRS annuity just as if you were covered by CSRS alone, except that the annuity payment will be reduced when you become eligible for Social Security benefits (usually at age 62). The amount of the reduction will be the amount of the Social Security benefit attributable to your service after 1983 that was covered by both CSRS and Social Security. A survivor annuity based on your service will be reduced for any survivor Social Security benefits in the same manner.

WAEPA'S **Long-Term Care Insurance**

WAEPA now offers you a choice of plans from the leading long-term care insurance companies that allows you to customize your benefits to meet your individual needs. However, the greatest benefit is that the WAEPA-sponsored group premium discount ensures that you will receive the best price on the plan you select.

You can customize your own long-term care policy by selecting from the following benefit options*:

Daily Benefit Options

\$50 – \$500 in \$10 increments. Ages 80 – 84, select \$50 – \$250 in \$10 increments.

Benefit Period:

Choose the minimum period you would like benefits to last: 2, 3, 4, 5, 6, 10 years or lifetime.

Elimination Period:

Elect the number of days you choose to pay before your policy begins: 30, 60, 90, 180, or 365 days.

Inflation Protection:

You can elect to build an annual increase into your policy to keep up with rising costs. Choose from 5% simple, 5% compound, or the Guaranteed Purchase Option, offered every three years.

*Availability of all benefit options may vary by state.

To learn more about Long-Term Care Insurance from WAEPA, and to obtain a FREE no-obligation premium quote:

call 1-800-243-5569 or visit www.LTCpolicy.com/waepa

Federal Long Term Care Insurance Program

On September 19, 2000, the Long Term Care Security Act (P.L. 106-265) was signed into law, mandating the creation of the Federal Long Term Care Insurance Program (FLTCIP), which is available to Federal and Postal employees and annuitants, members and retired members of the uniformed services, and qualified relatives. The FLTCIP permits those in the “Federal family” to purchase long term care insurance at group rates. Coverage through the FLTCIP is voluntary, and premiums are paid fully by the enrollees. There is no government contribution, unlike the Federal Employees Health Benefits Program (FEHBP). Employees do not choose the company through which to purchase their long term care insurance. The insurance is provided through the MetLife and John Hancock partnership, which was awarded the FLTCIP contract by OPM.

The FLTCIP was designed to provide those in the Federal family with an opportunity to purchase group insurance to offset the cost of long term care, should it become necessary. Long-term care is the kind of care that you would need to help you perform daily activities if you had a chronic illness or disability. It also includes the kind of care you would need if you had a severe cognitive problem like Alzheimer’s disease. It is help with eating, bathing, dressing, transferring from a bed to a chair, toileting, continence, and so forth. Long-term care can also include assistance with such tasks as shopping, transportation, housecleaning, or preparing meals. This type of care isn’t received in a hospital and isn’t intended to cure you. It is not acute care. It is chronic care that you might need for the rest of your life. It can be received in your own home, at a nursing home, or in another long term care facility. Long term care insurance is insurance that helps you pay for long term care services, such as home care or care in a nursing home or assisted living facility.

Be aware that long term care insurance covers care that is usually not covered by health insurance. Do not think that if you have health insurance you don’t need long term care insurance. This is simply not the case.

In addition, depending on your personal situation (age, health, and so forth), you may be able to get better coverage that is also less expensive outside the FLTCIP. **As with any major purchase, shop around before you buy a long term care insurance policy.** Compare the benefits and costs of the insurance from a number of different sources – both the FLTCIP and private companies - before you buy. If you do decide to purchase long term care insurance from a private company, however, make sure the company is reputable and financially sound.

Below is a brief overview of the FLTCIP. For a more detailed explanation of the program – along with general information about what to consider when purchasing long term care insurance – read the “Long Term Care Planning Handbook,” available from www.FederalHandbooks.com.

Eligibility

As specified in the law, individuals eligible to apply for coverage under the FLTCIP are:

- (1) **Employees** - Most Federal and U.S. Postal Service employees and active members of the uniformed services, employees of the Tennessee Valley Authority, D.C. Government employees who were first employed by the D.C. Government before October 1, 1987, and employees of the D.C. Courts. For Federal and Postal employees, in general if you are in a position that conveys eligibility for FEHB coverage, you are eligible for this program (whether enrolled in FEHB or not - the key is ELIGIBILITY);
- (2) **Annuitants** - Most Federal and U.S. Postal Service annuitants, retired members of the uniformed services, compensationers (individuals receiving compensation from the Department of Labor who are separated from the Federal service), and retired military reservists (including grey reservists), deferred annuitants (Federal and U.S. Postal Service annuitants who separated from service with title to a deferred annuity), retired employees of the Tennessee Valley Authority, retired D.C. Government employees who were first employed by the D.C. Government before October 1, 1987, retired employees of the D.C. Courts, and surviving spouses. To be considered eligible to apply for this insurance, surviving spouses must be receiving a Federal survivor annuity. They must be a surviving spouse of a deceased person in one of the following groups:
 - Federal and Postal employees or annuitants
 - D.C. Government employees or annuitants who were first employed by the D.C. Government before October 1, 1987, or
 - D.C. Courts employees or annuitants.

Surviving spouses of deceased active or retired members of the uniformed services who are receiving a Federal survivor annuity are also eligible. However, they are considered eligible as qualified relatives, rather than as annuitants.

- (3) **Qualified Relatives** -
 - **Current Spouses** of employees and annuitants (including surviving spouses of members and retired members of the uniformed services who are receiving a survivor annuity).
 - **Adult children** (at least 18 years old, including natural children, adopted children and stepchildren) of living employees and annuitants. Foster children are not eligible.
 - **Parents, parents-in-law, and stepparents** of living employees (but those of annuitants are not eligible).

People who fall into one of those groups are eligible to apply for the insurance. Whether someone's application will be approved and he/she will be enrolled in the insurance will depend on the results of the medical underwriting. Not everyone who applies for the insurance will be approved for it.

Types of Plans

Four Pre-Packaged Plans

The FLTCIP has four pre-packaged plans. The Facilities 100 plan covers care in nursing homes, assisted living and hospice facilities and respite services provided in a facility. The Comprehensive 100, 150 and 150+ plans cover everything in the Facilities 100 plan, plus home care, adult day care, respite services at home and home hospice care. Alternatively, you may wish to customize your own plan by mixing and matching the available benefit options.

Here is a detailed list of the benefits included in the pre-packaged plans:

Facilities 100 Package

This package includes the following:

- Covered Services:
 - o Nursing Homes
 - o Assisted Living Facilities
 - o Hospice Facilities
 - o Respite Services (in a facility)
- Daily Benefit Amount (DBA): \$100
- Benefit Period: 3 years
- Maximum Lifetime Benefit: \$109,500
- Waiting Period: 90 days
- Inflation Protection: A choice of the automatic compound inflation option or the future purchase option

Comprehensive 100 Package

This package includes the following:

- EVERYTHING in the Facilities 100 Plan, PLUS:
 - o Home Care (formal and informal)
 - o Adult Day Care
 - o Hospice Care at home
 - o Respite Services at home
- Daily Benefit Amount (DBA): \$100
- Benefit Period: 3 years
- Maximum Lifetime Benefit: \$109,500
- Waiting Period: 90 days
- Inflation Protection: A choice of the automatic compound inflation option or the future purchase option

Comprehensive 150 Package

This package includes the following:

- EVERYTHING in the Facilities 100 Plan, PLUS:
 - o Home Care (formal and informal)
 - o Adult Day Care

- Hospice Care at home
 - Respite Services at home
- Daily Benefit Amount (DBA): \$150
- Benefit Period: 5 years
- Maximum Lifetime Benefit: \$273,750
- Waiting Period: 90 days
- Inflation Protection: A choice of the automatic compound inflation option or the future purchase option

Comprehensive 150+ Package

This package includes the following:

- EVERYTHING in the Facilities 100 Plan, PLUS:
 - Home Care (formal and informal)
 - Adult Day Care
 - Hospice Care at home
 - Respite Services at home
- Daily Benefit Amount (DBA): \$150
- Unlimited Benefit Period
- Maximum Lifetime Benefit: unlimited
- Waiting Period: 90 days
- Inflation Protection: A choice of the automatic compound inflation option or the future purchase option

Facilities-Only vs. Comprehensive

Whether you choose one of the four pre-packaged plans or customize your own plan, one of the first decisions you will need to make is the type of plan that meets your needs. The two coverage options under the FLTCIP are a Facilities-Only plan or a Comprehensive plan.

A Facilities-Only plan includes services that you would receive while in a Nursing Home, Assisted Living Facility, or Hospice facility. It also covers respite services in these facilities. A Comprehensive plan includes everything in a Facilities-Only plan PLUS home care (formal and informal), adult day care, hospice care at home and respite services at home.

If you're looking for only catastrophic coverage, you may want to consider a Facilities-Only plan. You may also want to consider a Facilities-Only plan if you live alone, do not have a large support network, or do not see yourself using home care.

A Facilities-Only plan is about 30% less expensive than a Comprehensive plan. However, some of the features built into a Comprehensive plan, such as coverage for informal care and adult day care, can provide you with a great deal of flexibility. If you think you might prefer to receive care at home rather than (or at least before) care in a facility, you may want to consider a Comprehensive plan.

Daily Benefit Amount

Another option you will need to consider is your Daily Benefit Amount (DBA). Your DBA is the maximum amount the FLTCIP will pay for services you receive in any single day. Choices for your daily benefit amount range from \$50 to \$300 in increments of \$25.

The FLTCIP will reimburse care in a nursing home, assisted living facility, hospice care (whether in a facility or at home), and respite services (whether in a facility or at home at up to 100% of your DBA, limited to 30 times your DBA per calendar year). A Facilities-Only plan does not cover hospice or respite services at home. Home care and adult day care costs, which are covered under a Comprehensive plan only, are reimbursed up to 75% of your DBA. When selecting your DBA, it is important to consider the average daily cost of home care or facility care in the area where you think you might receive services. You can go to www.ltcfeds.com to find out the cost of care in various areas within the United States.

The amount you select for your DBA will affect the cost of your plan. A higher DBA will have a higher premium.

Weekly Benefit Amount

If you choose a Comprehensive plan, you will also need to decide if you want to have your benefits reimbursed on a weekly basis (7 times your daily benefit amount). The weekly benefit amount is not available with a Facilities-Only plan. Premiums for weekly reimbursement are an average of 6% higher than premiums for daily reimbursement. However, the greater flexibility may be worth the cost. Here's an example of how this works:

This example assumes that you receive home care 2 days during the week and that you have a DBA of \$100. On day 1 the cost of your home care is \$75 and on day 2 the cost of your home care is \$125 because you also received physical therapy that day. Remember that home care is reimbursed up to 75% of your DBA, so in this example it would be reimbursed up to \$75 per day. So with daily reimbursement, day 1 costs will be covered in full and \$75 of day 2 costs will be covered. You will have to pay \$50 out-of-pocket for the cost that was not covered on day 2 (\$125 – \$75). If you chose weekly reimbursement for your plan, your home care costs would be covered in full. That's because the weekly benefit with a \$100 DBA is \$700 (7 x DBA), home care would be reimbursed up to 75% of that (\$525), and the total cost of care is only \$200 (\$75 + \$125).

Benefit Period

Another option you will need to select is your Benefit Period. The Benefit Period is the length of time your insurance will last if you receive care every day at a cost equal to or more than your DBA. If your care costs less than your DBA, or you do not receive services every day, your insurance will last longer than your benefit period.

The FLTCIP provides you with a choice of three Benefit Periods – 3 years, 5 years, and unlimited. An unlimited Benefit Period means exactly that – your benefits are unlimited and will

not run out, subject to the daily or weekly restrictions. Your benefit period is used as a multiplier to determine your maximum lifetime benefit.

Maximum Lifetime Benefit

The maximum lifetime benefit is the total dollar amount your plan could pay for covered services. You may also see this referred to as a “pool of money.” If you select an unlimited benefit period, there is no “maximum lifetime benefit” – it is unlimited.

Your Benefit Period multiplied by your DBA defines your maximum lifetime benefit:
Using a daily benefit amount of \$100 and a benefit period of 3 years:

$$\text{\$100} \times 365 \times 3 = \text{\$109,500}$$

Your maximum lifetime benefit would be \$109,500. This is the total amount this plan would reimburse you for long term care services. Every dollar paid for your benefits reduces your maximum lifetime benefit. When your maximum lifetime benefit is gone, your insurance coverage ends.

Waiting Period

Next, you will need to choose a waiting period. Your waiting period is the number of days you must be eligible for benefits and receiving covered services before your benefits will start. Under the FLTCIP, you can select either a 30-day or a 90-day waiting period. Premiums for a 30-day waiting period are about 12% higher than premiums for a 90-day waiting period.

You only need to satisfy the waiting period once in your lifetime. There is no waiting period for hospice care, respite services and caregiver training. Because a waiting period is not applied to hospice care, respite services and caregiver training, these covered services do not count toward meeting your waiting period.

Inflation Protection

You also need to consider how your benefits will stay current with the rising costs of care. To help make sure that your benefits keep pace with inflation, the FLTCIP provides you with two inflation protection options: an Automatic Compound Inflation (ACI) Option and a Future Purchase Option (FPO).

Automatic Compound Inflation Option

With this option, your Daily Benefit Amount and remaining portion of your Maximum Lifetime Benefit will automatically increase by 5% compounded every year with NO corresponding increase in your premium. The increases continue even if you are eligible for benefits.

Although the initial premium is higher with this option, you won't have to think about buying additional coverage to keep pace with inflation.

Future Purchase Option

This inflation option increases your DBA and the remaining amount of your Maximum Lifetime Benefit every two years at an extra cost, as long as you are not eligible for benefits and you don't decline the increase. The increase will be based on increases in the Consumer Price Index for Medical Care. Once you have declined 3 increases, the increases will not start again unless you specifically request one and provide evidence of good health.

With the Future Purchase Option, you can assess the costs of care in the future and make a decision to increase benefits when you can afford to. Each time your coverage increases, the premium for that additional coverage will be based on your age and premium at the time the increase takes effect. With each inflation offer, you can switch to the Automatic Compound Inflation Option without proof of good health, as long as you are not eligible for benefits at that time and have not declined three offers in the past.

If it is determined in the future that the cumulative actual rate of inflation in the cost of long term care services since the last increase is significantly higher than 5% compounded annually, OPM and LTC Partners will agree upon a method to allow you, as an option, to increase your DBA.

Comparison of ACI and FPO

With FPO, your premiums start out lower than with ACI. As your benefit increases, your FPO premium increases and eventually becomes greater than the ACI premium. The FPO premium increases steeply during normal retirement ages; therefore you should consider whether you will be able to afford the higher premium at later ages under FPO.

Types of Care Covered

Facilities-Only Option

The following services are covered under the Facilities-Only Option.

Nursing Home and Assisted Living Facility Care

On any day you are in a Nursing Home or Assisted Living Facility, including those specializing in the care of persons with Alzheimer's disease, the FLTCIP will pay for:

- room and board accommodations; and
- nursing care by a formal caregiver; and
- drugs, incontinence supplies, dietary supplements, personal medical equipment and laundry services.

Hospice Facility Care

On any day you are in a Hospice facility, the FLTCIP will pay for:

- room and board accommodations; and
- hospice care; and
- drugs, incontinence supplies, dietary supplements, personal medical equipment and laundry services.

The waiting period does not apply to care in a Hospice facility. Care in a Hospice facility does not count toward meeting your waiting period.

Respite Services in a Facility

Respite Services provided in a Nursing Home, Assisted Living Facility or Hospice facility will be paid for. Respite Services are limited to 30 times your daily benefit amount per calendar year

Comprehensive Option

The Comprehensive Option includes all services covered under the Facilities-Only Option plus the following additional covered services:

Home Care

Includes care provided at home by a nurse, home health aide, homemaker, or therapist. The FLTCIP also covers informal care provided by friends, family members and other non-licensed caregivers who did not normally live in your home at the time you became eligible for benefits. Informal care provided by family members is covered up to 365 days in a lifetime.

Formal Care at Home

A Comprehensive plan will pay for services provided to you by a Formal Caregiver at home.

Informal Care

A Comprehensive plan will pay for services provided by an Informal Caregiver if the services are:

- provided to you at home or at a location other than a Nursing Home, Hospice facility or Assisted Living Facility (such as the home of a friend or relative); and
- approved by an FLTCIP care coordinator as part of your written Plan of Care; and
- provided by a person who did not normally live in your home at the time you became eligible for benefits. (Note: the FLTCIP will pay for Informal Caregiver services provided by a person who began living in your home after you became eligible for benefits).

Benefits for Informal Caregivers who are Family Members are limited to 365 days in your lifetime.

Adult Day Care Center

A Comprehensive plan will also pay for services provided to you under an adult day care program at an Adult Day Care Center.

Hospice Care at Home

In addition to hospice care in a facility, a Comprehensive plan will also pay for Hospice Care provided to you at home.

The waiting period does not apply to Hospice Care at home. Hospice Care at home does not count toward meeting your waiting period.

Respite Services at Home

Includes care provided in a Nursing Home, Assisted Living Facility or Hospice Facility; by a Formal or Informal Caregiver at home; or at an Adult Day Care Center.

Benefits for Respite Services (in a facility or at home) are limited to an amount equal to 30 times your Daily Benefit Amount per calendar year.

The waiting period does not apply to Respite Services. Respite Services do not count toward meeting your waiting period.

Waiver of Premium

Once you have completed your waiting period, you will not have to pay premiums while you are eligible for benefits.

If you satisfy the requirements for waiver of premium on the first day of a month, the waiver will take effect on that date. Otherwise, the waiver will take effect on the first day of the following month.

If, at a later date, you are no longer eligible for benefits (e.g., you recover) and you wish to maintain your coverage, you will have to resume paying your premium on the first day of the month following the month in which you are no longer eligible for benefits.

Portability

Your coverage under the FLTCIP is portable. This means that once your insurance coverage is effective, even if you are no longer a member of an eligible group, you can keep your coverage, as long as you continue to pay your premium and have not used up your Maximum Lifetime Benefit. Your benefits and premiums will not change because you leave an eligible group.

Bed Reservations

If you are in a Nursing Home, Assisted Living facility, or Hospice facility and you leave that facility, the FLTCIP will pay for actual charges you incur to hold a space to enable you to return to that facility. The FLTCIP will not pay for more than the benefit that it would pay if you had been in the facility on those days. Benefits for bed reservations are limited to 30 days per calendar year.

Alternate Plan of Care

In certain circumstances, the FLTCIP care coordinators can authorize benefits for services that are not specifically covered under the Federal Program. For example, if you have a Comprehensive plan, the Program might cover making your home wheelchair-accessible, which could be a good alternative to other Program services.

Care Coordination

The FLTCIP care coordinators are registered nurses. They will work with you to help you through the benefit eligibility process and help you identify the long term care providers and services to meet your needs.

Your care coordinator can arrange for discounted services, monitor the care you're receiving, and assist with altering your plan of care as your needs change. Unlike most long term care insurance programs, the FLTCIP also provides care coordination services to qualified relatives of enrollees. This can be invaluable in helping reduce the stress that you can experience when a relative needs long term care.

International Benefits

Because the FLTCIP is designed exclusively for the Federal Family, it provides benefits for covered services outside the United States and its territories and possessions ("the United States"). These international services are covered up to 80% of the benefit limits, not to exceed 80% of your maximum lifetime benefit. The remaining 20% will be available for covered services if you return to the United States and continue to need long term care.

If you have an unlimited benefit period, your benefit period will be limited to 10 years for covered services you receive outside the United States. For such services, your maximum lifetime benefit will be equal to 3,650 days (10 years) x 80% of your daily benefit amount. Your maximum lifetime benefit for covered services you receive in the United States will remain unlimited.

The coordination of benefits provision does not apply to the international benefits.

Caregiver Training

The FLTCIP will pay for the training of a family member or any other informal caregiver to care for you. Benefits for caregiver training are limited to an amount equal to 7 times your daily benefit amount in your lifetime. There is no waiting period for caregiver training.

Service Package

If as a result of the underwriting process you are declined coverage, you will be offered the Service Package option. The Service Package is a non-insurance option that provides access to care coordination and discounts. This option is available for a membership fee of \$59.00 per year for a single person or married couple. Anyone eligible for the Service Package will automatically receive more information from LTC Partners about this option.

Alternative Insurance Plan

The alternative insurance plan is available to anyone who answered yes to any of questions 4-7 in part B (and no to all of questions 1-3) of the abbreviated underwriting application. This plan is also available to spouses eligible to use the abbreviated underwriting application who answered yes to questions 8 or 9 in part B of the application, no to all of questions 1-3, and were declined for standard coverage. This is a nursing home only plan that provides a weekly benefit, a 2-year benefit period (104 weeks) and a 180-day waiting period. Anyone who applies for insurance under the Federal Program and is eligible for the Alternative Insurance Plan will automatically receive more information about this option.

Original Effective Date

Your original effective date is the date that your coverage is scheduled to go into effect. However, it may not become effective on that date. Employees and members of the uniformed services must be actively at work on that date, otherwise coverage will not become effective on that date. In addition, your coverage may not become effective if you leave your eligible group before that date.

If you apply and your application is approved, you'll receive a Schedule of Benefits that will list an Original Effective Date. Your Original Effective Date will be the first day of the month following approval of your application.

You are responsible for letting LTC Partners know if your health changes from the time you completed your application until your original effective date. If so, and if that change in health is such that you would now answer one or more questions differently on the application, you have a duty to inform LTC Partners. LTC Partners will then determine if you are still approved for coverage. If you do not inform LTC Partners of this change in health, then LTC Partners may have the right to deny a claim for benefits or rescind coverage.

Premiums

The amount of your premium is based on the coverage options you are approved for and your age. Your premiums will not change because you get older or your health changes after your coverage becomes effective.

You can use the Premium Calculator at www.ltcfeds.com to find out the premiums for your age and the benefit options you choose. The calculator will allow you to model up to four options and compare the benefits and costs of each on the same screen.

Premiums are due and payable on the first day of the month in which they are due. You must pay premiums in U.S. currency.

Billing Options

The FLTCIP offers three options for paying your long term care insurance premiums – Automatic Bank Withdrawal, Payroll/Annuity Deduction, and Direct Bill. You may also pay the premiums for any of your qualified relatives who apply and are approved for coverage, even if you don't apply or you apply and are denied coverage.

Automatic Bank Withdrawal

If you choose this option, you will need to complete a Billing Change Form. The deduction will be processed automatically from your checking or savings account on the third business day of every month. You will need to provide details about your account on your application. For checking account deductions, you will have to provide a voided check. For savings account deductions, you will have to provide a savings deposit slip. You will also have to sign a written authorization so that the deductions can begin.

Payroll/Annuity Deductions

This service is available to most employees and annuitants, and members and retired members of the uniformed services. Your premium deduction will begin on the first day of the first pay or annuity period that begins on or after your effective date of coverage.

Direct Bill

If you select the Direct Bill option, you will receive a bill to your designated mailing address during the month before your premium is due. You may designate an alternate billing address if you would like.

You can change your method of payment at any time and for any reason by submitting a Billing Change Form. To obtain a Billing Change Form you can call 1-800- LTC-FEDS (1-800-582-3337) (TTY: 1-800-843-3557). You will need to complete, sign and mail the form to the address provided on the form.

Grace Period

There is a 30-day grace period for payment of your premium. This means that your premium payment must be received by the 30th day after the date it is due. If your premium is not received by the end of this grace period, you will be sent a written notice of termination of your coverage by first class mail. You will have 35 days from the date of the termination letter to pay your premium; otherwise your coverage will end.

To help protect you from an unintended lapse of your coverage, you have the option of designating a person to receive a copy of any notice of termination that is sent to you. The person that you designate will not be responsible for your premium payment. If you elect this feature (either on your application or anytime when your coverage is effective), you must notify LTC Partners in writing if you want to change your designation.

Coordination of Benefits

The FLTCIP includes a provision for Coordination of Benefits (COB). This COB provision follows the guidelines set by the National Association of Insurance Commissioners (NAIC).

In determining the amount of benefits LTC Partners will pay, this COB provision allows LTC Partners to look at other plans that might pay benefits for long term care services that you receive. The other plans LTC Partners will look at include government programs (other than Medicaid), group medical benefits, and other employer-sponsored long term care insurance. LTC Partners will not look at individual insurance policies or association group insurance policies. This COB feature does not apply to international benefits.

Tax Qualified

According to Federal law, tax-qualified long term care insurance programs are treated like other medical insurance for Federal income tax purposes. For example, benefits you receive cannot be

taxed as income for Federal tax purposes and you may be able to deduct a portion of your premiums from your taxable income.

The FLTCIP, by law, is designed to be a tax qualified long term care insurance coverage under Section 7702B(b) of the Internal Revenue Code of 1986, as amended. That means that you have the same Federal income tax advantages afforded to all such tax-qualified plans. Subject to specified dollar limits that vary depending on your age, you may be able to include your premium in your itemized deductions on your Federal income tax return, if your total medical expenses, including the allowable portion of your premium, exceed 7½ % of your adjusted gross income. The allowable dollar limits are reviewed each year by the U.S. Treasury and adjusted accordingly.

These amounts will increase annually based upon the Consumer Price Index for Medical Care. Many states also offer tax incentives for their residents who purchase long term care insurance. For more information on state specific tax incentives, visit the OPM website at www.opm.gov/insure/ltc or consult your tax advisor.

Outline of Coverage

The Outline of Coverage is an informational booklet that provides a brief description of the most important features of coverage available under the FLTCIP. Items included in the Outline are Benefits Provided, Eligibility, Exclusions and Limitations, and Inflation Protection. Since all insurers are required to issue an outline of coverage, you can use these to compare different plans. Note that the Outline of Coverage is not a contract; the contractual provisions that relate to you are contained in your Benefit Booklet and Schedule of Benefits that you will receive if your application for coverage is approved. You can review a copy of the FLTCIP's Benefit Booklet and Sample of Schedule of Benefits by going to www.ltcfeds.com.

Exclusions

The FLTCIP does not cover:

1. illness, treatment or medical condition arising out of :
 - a. your participation in a felony, riot or insurrection
 - b. your attempted suicide, while sane or insane;
 - c. injuries you intentionally inflict on yourself;
2. care or treatment for alcoholism or drug addiction;
3. care or treatment provided to you in a government facility, including a Department of Defense or Department of Veterans Affairs facility, unless otherwise required by law;
4. care you receive while in a hospital, except in a unit specifically designated as a nursing home or hospice facility;
5. any service or supply to the extent that the expenses are reimbursable by Medicare, or would be so reimbursable except for the application of a deductible, coinsurance or co-payment amount (this exclusion will not apply in those instances where Medicare is determined to be the secondary payor under applicable law);
6. services or supplies for which you are not obligated to pay in the absence of insurance; or

7. services provided by another person who normally lived in your home at the time you became eligible for benefits.

Unlike most long term care insurance policies available, FLTCIP coverage does NOT contain a war exclusion. Your coverage may be reduced if a war or act of war (declared or undeclared) is determined to be a Catastrophic Event under the Catastrophic Coverage Limitation. As a result, benefits may be payable under the FLTCIP for conditions due to war or acts of war, declared or undeclared, or service in the armed forces or auxiliary units.

Benefit Eligibility

You will be eligible for benefits when a licensed health care practitioner certifies and LTC Partners agrees that either:

- you are unable to perform at least two of the six Activities of Daily Living (ADLs) without substantial assistance for a period expected to last at least 90 days. Activities of Daily Living are eating, bathing, dressing, transferring, toileting, and continence; or
- you require substantial supervision to protect yourself due to a severe cognitive impairment, such as Alzheimer's disease.

Benefits can begin after the waiting period that you choose, if the covered services are part of an approved "plan of care" developed by a licensed health care practitioner of your choice and approved by LTC Partners.

Claims

To initiate a claim, you or your representative must submit written proof of your claim to LTC Partners no later than 12 months from the date you incurred charges for covered services. If you or your representative do not submit proof of claim within this time limit, benefits may be denied unless you can show that it was not reasonably possible for you to submit proof of claim within the time limit, and you or your representative submitted proof of claim as soon as reasonably possible.

Claims Determination

LTC Partners will send you written notice of its claim determination no later than 10 business days after it receives all the information it needs.

If your claim is denied, in whole or in part, the notice will provide the reason(s) for the denial. You or your representative may request a review of a denial by sending a written request to LTC Partners no later than 60 days after the date of the denial. No later than 60 days after the date LTC Partners receives your request, it will send you written notice of its decision. If the initial denial is upheld on review, you may request an appeal.

Appeals

If you choose to appeal the eligibility for benefits or claim decision, you must send a written request to LTC Partners, with any additional information that you wish to be considered, no later than 60 days after the date of LTC Partners' review decision. Your appeal will be reviewed by an appeals committee composed of: one or more representatives of John Hancock Life Insurance Company, one or more representatives of Metropolitan Life Insurance Company, and other person(s) if mutually agreed upon by OPM and LTC Partners.

The appeals committee will provide you with written notice of its final decision no later than 60 days after the date your written request for appeal was received. If the appeals committee upholds the denial and that denial is eligible for appeal to an independent third party (as explained below), the written notice will let you know how to request such an appeal.

Independent Third Party

If the appeals committee upholds a denial of your eligibility for benefits or your claim due to its evaluation of your medical condition/functional capacity, such as your ability to perform Activities of Daily Living or your cognitive status, you may request an appeal of that decision to an independent third party mutually agreed to by OPM and LTC Partners. You must make this request in writing no later than 60 days after the date of the notice informing you of the appeals committee's decision.

The independent third party will provide you with written notice of its final decision no later than 60 days after LTC Partners receives your request for appeal to the independent third party. The decision of the independent third party is final and binding.

The following is an example of when a denial by the appeals committee will be eligible for appeal to an independent third party: the appeals committee upholds a denial of your eligibility for benefits because its review indicates that you can perform 5 out of 6 Activities of Daily Living. The following is an example of when a denial by the appeals committee will not be eligible for appeal to an independent third party: the appeals committee upholds a denial of your claim for benefits for nursing home services because you exhausted your Maximum Lifetime Benefit.

Exhaustion of the Appeals Process

Once you have exhausted this appeals process, you may seek judicial review of a final denial of eligibility for benefits or a claim. Please see the Limits on Legal Actions subsection of the General Provisions section of the Benefit Booklet for more information.

Payment of Benefits

All benefits for the FLTCIP will be paid in United States currency. These benefits will be paid directly to you unless you have completed an assignment of benefits. You may not assign benefits to any provider outside the United States, its territories and possessions. If you have a Comprehensive plan, LTC Partners will determine, at its sole discretion, whether to honor assignments to informal caregivers. You may not assign benefits prior to a claim.

Benefit Changes

You may request an increase (upgrade) or decrease (downgrade) in your coverage by writing to LTC Partners or calling them at 1-800-LTC-FEDS (1-800-582-3337) (TTY: 1-800-843-3557).

In order to receive approval of a request for an increase, you must provide, at your expense, evidence of your good health that is satisfactory to LTC Partners. You do not have to provide evidence of your good health for a decrease. The amount of an increase or decrease will be subject to Federal Program options available at the time of your request.

Continuation of Coverage

If the group policy under the FLTCIP ends, OPM intends to continue your insurance coverage by replacing the existing group policy with another one that will:

- be effective on the day after the group policy ends;
- provide coverage that is substantially the same as that provided by the group policy; and
- calculate your premium based on the same issue age(s) as under the group policy.

In the unlikely event that the group policy ends and there is no replacement policy as described above, LTC Partners will continue your coverage.

Reinstatement of Coverage

If your coverage ends because you did not pay your premium when due, your coverage will be reinstated as of the date it ended if, within 6 months of the date your coverage ended, you or your representative:

- submits evidence satisfactory to LTC Partners that you suffered a cognitive impairment or loss of functional capacity before the expiration of the 30-day grace period for payment of your premium (the standard of proof LTC Partners will require will be no more restrictive than the requirements to establish eligibility for benefits); and
- submit all past due premiums.

If your coverage ends because you canceled it or did not pay your premium when due, your coverage will be reinstated as of the date it ended, if within 12 months of the date coverage ended you:

- request reinstatement; and
- submit, at your expense, evidence of your good health that is satisfactory to LTC Partners; and
- submit all past due premiums.

If your coverage is reinstated, your premium will be based on your age as if your coverage had continued without interruption.

To get more information on the FLTCIP, or to obtain a free information kit, go to www.ltcfed.com.

Federal Student Loan Repayment Program

The Federal student loan repayment program permits agencies to repay federally insured student loans as a recruitment or retention incentive for candidates or current employees of the agency. The program authorizes agencies to set up their own student loan repayment programs to attract or retain highly qualified employees.

Be aware that employees are not entitled to a student loan repayment. Agencies have discretionary authority to repay certain types of federally insured student loans as a recruitment or retention incentive for highly qualified candidates or current employees.

Applying

Current Federal employees or potential candidates may contact their current or potential employing agency for information on how to apply for the student loan repayment program. Each participating agency must develop a plan that describes how it will implement the program.

Maximum Amount

Originally, agencies were authorized to pay up to \$6,000 per year per employee, with a maximum of up to \$40,000 per employee. On November 11, 2003, however, the President signed into law P.L. 108-123, which increased those limits. Now, for any one individual, an agency may agree to provide student loan repayment benefits of up to \$10,000 per calendar year, subject to a cumulative maximum of \$60,000 per employee. The employing agency makes student loan payments directly to the loan holder. Student loan payments are not paid to employees.

Previous Repayment by the Employee

An agency may not make a loan repayment for a student loan that was previously repaid by the employee. Student loan repayments may be paid only for outstanding student loans.

Future Student Loans

An agency may not agree to repay any future student loans accrued by an employee. An agency may agree only to make payments on those student loans taken out prior to the student loan repayment agreement.

In Addition to Existing Bonuses and Incentives

Agencies do have the authority to offer student loan repayment benefits in conjunction with recruitment and relocation bonuses and retention allowances. Agencies may also use student loan repayment benefits in conjunction with a physicians' comparability allowance (PCA). However, regulations require that the amount of the PCA be reduced by the amount of the student loan repayment.

Recruiting from Other Federal Agencies

The intent of the federal student loan repayment program is to help agencies recruit individuals for Federal service, not for agencies to compete with one another for employees. Thus, agencies should not use this authority to recruit current Federal employees from other agencies.

Retaining Employees Leaving for Another Federal Agency

Similarly, agencies may not offer to repay a student loan for an employee who is likely to leave for any position in any branch of the Federal Government.

Employee Eligibility

Any employee (as defined in 5 U.S.C. 2105) who is highly qualified is eligible to receive a student loan repayment, except those employees who currently occupy or will occupy a position excepted from the competitive service because of its confidential, policy-determining, policy-making, or policy-advocating character (i.e., employees serving under Schedule C appointments). Under 5 CFR 537.104, agencies may offer loan repayment benefits to -

- Temporary employees who are serving on appointments leading to conversion to term or permanent appointments;
- Term employees with at least 3 years left on their appointment;
- Permanent employees (including part-time employees); and
- Employees serving on excepted appointments with conversion to term, career, or career conditional appointments.

Eligibility of Non-GS Employees

Employees not covered by the General Schedule (GS) pay system are also eligible for student loan repayment benefits. The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-398) amended 5 U.S.C. 5379 to remove the limitation that only employees covered by the GS pay system were eligible for student loan repayment benefits. All “highly qualified” personnel, regardless of job series, including Senior Executive Service members, Federal Wage System employees, and employees covered by administratively determined pay systems, are eligible unless specifically excluded by law or regulation.

PLUS Loan Obligations for a Child

The statute authorizing the student loan repayment program states that this incentive is to be used for employees of a given agency who have outstanding student loans. Therefore, if the employee has a PLUS loan for his or her child, the employee would be eligible. However, if a PLUS loan is held by an employee’s parent, the employee is not eligible for loan repayment benefits for the parent’s PLUS loan.

Eligibility of Employees in Default

The student loan repayment authority itself does not preclude payments for employees who have defaulted on their student loans. However, agencies may exclude them by so specifying in their agency plans.

Types of Academic Degrees and/or Levels Covered

The types of academic degrees and/or levels covered by the program are not specified in law. Agencies are encouraged to tailor their plans to recruit highly qualified candidates and/or retain

highly qualified employees in their current positions. Therefore, an agency may specify the types of degrees and levels necessary to attain this goal.

In addition, the law does not require that a candidate or employee earn a degree, diploma, or certificate to be eligible for a student loan repayment benefit. However, an agency may require a degree, diploma, or certificate as part of its individual agency plan. Agencies are encouraged to tailor their plans to fit their specific needs.

Loan Eligibility

A student loan is eligible for payment under this authority if it is made, insured, or guaranteed under parts B, D, or E of title IV of the Higher Education Act of 1965 or is a health education assistance loan made or insured under part A of title VII or part E of title VIII of the Public Health Service Act. Examples of the loans that qualify under the student loan repayment program are as follows.

Loans made or insured under the Higher Education Act of 1965 include the following:

Federal Family Education Loans (FFEL)

- Subsidized Federal Stafford Loans
- Unsubsidized Federal Stafford Loans
- Federal PLUS Loans
- Federal Consolidation Loans

William D. Ford Direct Loan Program (Direct Loans)

- Direct Subsidized Stafford Loans
- Direct Unsubsidized Stafford Loans
- Direct PLUS Loans
- Direct Subsidized Consolidation Loans
- Direct Unsubsidized Consolidation Loans

Federal Perkins Loan Program

- National Defense Student Loans (made before July 1, 1972)
- National Direct Student Loans (made between July 1, 1972 and July 1, 1987)
- Perkins Loans (made after July 1, 1987)

Loans made or insured under the Public Health Service Act include the following:

- Loans for Disadvantaged Students (LDS)
- Primary Care Loans (PCL)
- Nursing Student Loans (NSL)
- Health Professions Student Loans (HPSL)
- Health Education Assistance Loans (HEAL)

You should also be aware that loans that were purchased or sold by the original holder are eligible for payment, assuming the other conditions of the regulations are met.

Agency Plans

Under 5 CFR 537.103, each agency must establish a plan that designates the officials who are authorized to review and approve offers of student loan repayment benefits. Agencies should use approval delegations similar to those used for other recruitment and retention incentives.

An agency may tailor its student loan repayment plan to include candidates with specific skills or in a certain job occupation. Again, agencies may tailor their student loan repayment plan as they see fit in order to facilitate the recruitment and retention of highly qualified personnel.

Lump Sum Payments

Note that agencies are not required to make loan payments in one lump sum. In fact, making a loan payment in one lump sum to the loan holder on behalf of the employee accelerates the employee's tax liability and may increase the resulting tax burden.

Late Fees

Agencies are not responsible for any late fees assessed by the loan holder if the agency student loan payment is not received on time. Agencies should state this in their agency plans and/or in the service agreements with employees. Agencies should, to the extent possible, ensure that the timing of their payment to the loan holder coincides with the date the loan payment is due.

Aggregate Limitation on Pay

Student loan payments are not subject to the aggregate limitation on pay under 5 U.S.C. 5307. The aggregate limitation on pay applies to direct payments made to the employee, whereas student loan payments are paid to the loan holder on behalf of the employee.

Repayment Benefits Subject to Employment Taxes

Although a student loan payment is paid directly to the loan holder on behalf of the employee, the payment is nonetheless includible in the employee's gross income and wages for Federal employment tax purposes. Consequently, the agency must withhold and pay employment taxes from either the employee's regular wages, the loan payment, or a separate payment made by the employee. The applicable employment taxes include Federal income taxes withheld from wages (and, where appropriate, State and local income taxes) and the employee's share of social security and Medicare taxes. Tax withholdings must be deducted or applied at the time any loan payment is made. The agency may choose among several different methods for withholding taxes.

Be sure to note the implications of deducting taxes directly from a gross loan payment. For example, if the agency has approved a student loan repayment benefit of \$6,000 and the employee's tax deductions are \$2,000, then the agency will make a loan payment of \$4,000. The full \$6,000 counts toward the maximum limitations noted above (up to \$10,000 per calendar year, subject to a cumulative maximum of \$60,000 per employee).

Agencies have several options available for easing the tax liability on a recipient of the student loan repayment benefits. Talk to those handling your agency's student loan repayment program to discuss these. Agencies are responsible for reporting their student loan payments to the Internal Revenue Service. They must report to the IRS the amount of student loan benefits they have provided to an employee.

Service Agreements

An employee receiving this benefit must sign a service agreement to remain in the service of the paying agency for a specified period. The minimum period of service an agency may require an employee to fulfill in order to receive student loan repayment benefits is 3 years. Agencies may require service agreements of more than 3 years.

Agencies should specify the beginning date of the service requirement in the candidate or employee's service agreement. The service requirement begins at the time specified in the service agreement, but may begin no earlier than the time the service agreement is signed. For example, an agency could make the student loan repayment benefits contingent on an employee's completion of a basic training program. In this example, the employee enters Federal service and completes a 90-day training course. The service agreement may state that, if the employee successfully completes the course, the service requirement begins at that time.

Service requirements may not be prorated according to the dollar amount of the student loan repayment benefit offered. The minimum service requirement is established in statute and may not be prorated. In addition, an employee must reimburse the paying agency for all benefits received if he or she is separated voluntarily or involuntarily for cause or poor performance. In addition, an employee must maintain an acceptable level of performance in order to continue to receive repayment benefits.

Employee Reimbursement If Leaving Agency

Occasionally, an employee may leave the paying agency for another Federal agency before completion of the service requirement. Under these circumstances, the employee is not required by law to reimburse the paying agency unless specified in the service agreement. However, the gaining agency is not obligated to make any loan payments previously agreed to by another agency.

Employee Reimbursement If Leaving Federal Service

If an employee voluntarily separates from Federal service and does not complete the terms of the service agreement, he or she is obligated to reimburse the paying agency for the full amount of the loan repayment benefits provided (gross before any tax deductions from the loan payment). For example, if an employee's agreement states that he or she will receive \$6,000 per year for 3 years, and the employee leaves with 6 months remaining on the service agreement after receiving \$15,000 in loan repayment benefits, the employee must reimburse the paying agency for \$15,000.

The same rule applies even if an employee fails to complete the service requirement because of disability retirement or leaves Federal service because of a disabling condition – he or she is required to reimburse the government for all loan payments received. However, agencies may waive recovery if they determine it to be against equity and good conscience or contrary to the public interest. Agencies are responsible for making their own determination regarding what “against equity and good conscience” means. But in doing so, agencies should take into account consistency, fairness, and the cost to taxpayers of recovering monies owed to the government.

Leave

Federal employees have available to them several different types of leave, including annual leave, sick leave, military leave, and court leave, to name a few. This chapter will discuss the various types of leave that federal employees may take, as well as programs such as leave transfer, designed to assist employees who have exhausted their leave. Lastly, it will identify the federal holidays for 2004 and 2005. For more detailed information, read Federal Handbooks' Federal Leave Handbook, available from www.federalhandbooks.com.

Annual Leave

An employee may use annual leave for vacations, rest and relaxation, and personal business or emergencies. An employee has a right to take annual leave, subject to the right of the supervisor to schedule the time at which annual leave may be taken. An employee will receive a lump-sum payment for any unused annual leave when he or she separates from federal service or enters on active duty in the armed forces and elects to receive a lump-sum payment.

Accrual Rates

Employee Type	Less than 3 years of service	3 years but less than 15 years of service	15 or more years of service
Full-time employees	½ day (4 hours) for each pay period	¾ day (6 hours) for each pay period, except 1¼ day (10 hours) in last pay period	1 day (8 hours) for each pay period
Part-time employees*	1 hour of annual leave for each 20 hours in a pay status	1 hour of annual leave for each 13 hours in a pay status	1 hour of annual leave for each 10 hours in a pay status
Uncommon tours of duty*	(4 hours) times (average # of hours per biweekly pay period) divided by 80 = biweekly accrual rate.**	(6 hours) times (average # of hours per biweekly pay period) divided by 80 = biweekly accrual rate.**	(8 hours) times (average # of hours per biweekly pay period) divided by 80 = biweekly accrual rate. **

* Leave is prorated for part-time employees and employees on uncommon tours of duty.

** In computing leave accrual for uncommon tours of duty, the accrual rate for the last full pay period in a calendar year must be adjusted to ensure the correct amount of leave is accrued.

Advance Annual Leave

Supervisors may grant advance annual leave consistent with agency policy. The amount of annual leave that may be advanced is limited to the amount of annual leave an employee would accrue in the remainder of the leave year. Employees do not have an entitlement to advance annual leave. In most cases, when an employee who is indebted for advance annual leave separates from federal service, he or she is required to refund the amount of advance leave for which he or she is indebted.

Annual Leave Ceilings

Maximum Annual Leave That May be Carried Over into the New Leave Year	
Federal Employees Stationed within the United States	30 days
Federal Employees Stationed Overseas	45 days
Members of the Senior Executive Service	90 days

Any accrued annual leave in excess of the maximum allowed by law will be forfeited. Forfeited annual leave may be restored.

Annual Leave to Establish Retirement Eligibility

An employee may use annual leave to establish initial eligibility for retirement in reduction-in-force and other restructuring situations. An employee who has received a specific notice of termination in a RIF situation may use annual leave past the date the employee would otherwise have been separated, in order to establish initial eligibility for immediate retirement, including discontinued service or voluntary early retirement.

Restoration of Annual Leave

Agencies may restore annual leave that was forfeited because it was in excess of the maximum leave ceilings (i.e., 30, 45, or 90 days) if the leave was forfeited because of an administrative error, exigency of the public business, or sickness of the employee. An agency must restore the annual leave in a separate leave account.

Administrative Error

The employing agency determines what constitutes an administrative error.

Exigency of the Public Business

The employing agency determines that an exigency is of major importance and that excess annual leave cannot be used.

Sickness

The employing agency determines that the annual leave was forfeited because of a period of absence due to an employee's sickness or injury that occurred late in the leave year or was of such duration that the excess annual leave could not be rescheduled for use before the end of the leave year.

An agency may consider for restoration annual leave that was forfeited due to an exigency of the public business or sickness of the employee only if the annual leave was scheduled in writing before the start of the third biweekly pay period prior to the end of the leave year.

Time Limit for Using Restored Annual Leave

An employee must schedule and use restored annual leave not later than the end of the leave year ending 2 years after -

- the date of restoration of the annual leave forfeited because of administrative error;
- the date fixed by the head of the agency or designee as the date of termination of the exigency of the public business; or
- the date the employee is determined to be recovered from illness or injury and able to return to duty.

Restored annual leave that is not used within the established time limits is forfeited with no further right to restoration. Administrative error may not serve as the basis to extend the time limit within which to use restored annual leave. This is so even if the agency fails to establish a separate leave account, fix the date for the expiration of the time limit, or properly advise the employee regarding the rules for using restored annual leave, absent agency regulations requiring otherwise.

Lump-Sum Payments for Annual Leave

An employee will receive a lump-sum payment for any unused annual leave when he or she separates from federal service or enters on active duty in the armed forces and elects to receive a lump-sum payment. Generally, a lump-sum payment will equal the pay the employee would have received had he or she remained employed until expiration of the period covered by the annual leave.

Calculating a Lump-Sum Payment

An agency calculates a lump-sum payment by multiplying the number of hours of accumulated and accrued annual leave by the employee's applicable hourly rate of pay, plus other types of pay the employee would have received while on annual leave, excluding any allowances that are paid for the sole purpose of retaining a federal employee in government service (e.g., retention allowances and physicians comparability allowances).

Types of Pay Included in a Lump-Sum Payment

- Rate of basic pay
- Locality pay or other similar geographic adjustment
- Within-grade increase (if waiting period met on date of separation)
- Across-the-board annual adjustments
- Administratively uncontrollable overtime pay, availability pay, and standby duty pay
- Night differential (for FWS employees only)
- Regularly scheduled overtime pay under the Fair Labor Standards Act for employees on uncommon tours of duty
- Supervisory differentials
- Nonforeign area cost-of-living allowances and post differentials
- Foreign area post allowances

Return to Federal Service

In calculating a lump-sum payment, an agency projects forward an employee's annual leave for all the workdays the employee would have worked if he or she had remained in federal service. By law, holidays are counted as workdays in projecting the lump-sum leave period. If an employee is reemployed in the federal service prior to the expiration of the period of annual leave (i.e., the lump-sum leave period), he or she must refund the portion of the lump-sum payment that represents the period between the date of reemployment and the expiration of the lump-sum period. An agency recredits to the employee's leave account the amount of annual leave equal to the days or hours of work remaining between the date of reemployment and the expiration of the lump-sum leave period.

Sick Leave

In addition to annual leave, federal employees also accrue sick leave. Employees may use sick leave for their own personal medical needs; to care for a family member; or for adoption-related purposes. As will be explained in more detail below, however, there are special restrictions when an employee uses sick leave to care for a family member or for adoption-related purposes.

Sick Leave Accrual.

Full-time Employees - 1/2 day (4 hours) for each biweekly pay period.

Part-time Employees - 1 hour for each 20 hours in a pay status.

There are no limits on the amount of sick leave that can be accumulated. Unused sick leave accumulated by employees covered by the Civil Service Retirement System will be used in the calculation of their annuities.

Requesting Sick Leave

An employee must request sick leave within such time limits as the agency may require. An agency may require employees to request advance approval for sick leave for their own or a family member's medical, dental, or optical examination or treatment.

Granting Sick Leave

An agency may grant sick leave only when supported by evidence administratively acceptable by the agency. For absences in excess of 3 days, or for a lesser period when determined necessary by the agency, an agency may require a medical certificate or other administratively acceptable evidence.

Advance Sick Leave

At the discretion of the agency, a maximum of 30 days of sick leave may be advanced to an employee with a medical emergency or for purposes related to the adoption of a child. A maximum of 5 days of sick leave may be advanced for family care or bereavement purposes.

Sick Leave for Personal Medical Needs

An employee may use sick leave when he or she (1) is incapacitated for the performance of duties by physical or mental illness, injury, pregnancy, or childbirth; (2) receives medical, dental,

or optical examination or treatment; or (3) would, as determined by the health authorities having jurisdiction or by a health care provider, jeopardize the health of others by his or her presence on the job because of exposure to a communicable disease.

Sick Leave for Diagnostic Testing

On January 4, 2001, the President issued an executive memorandum directing agencies to review their policies and make maximum use of existing work schedule and leave flexibilities to allow federal employees to take full advantage of health screening programs and other effective preventive health measures. Such flexibilities include promoting alternative work schedules (flexible and compressed work schedules), granting leave under the federal government's sick and annual leave programs, and granting excused absence to employees to participate in agency-sponsored preventive health activities. In addition, in the case of an employee with fewer than 80 hours (2 weeks) of accrued sick leave, the President directed agencies to establish a policy that provides up to 4 hours of excused absence each year for participation in preventive health screenings.

Employees with fewer than 80 hours of sick leave to their credit are eligible to use 4 hours of excused absence each year for preventive health screenings. If, during a pay period, an employee's sick leave balance drops below 80 hours, the employee may use 4 hours of excused absence for preventive health screenings. For purposes of this directive, "year" means "leave year." "Preventive health screenings" include, but are not limited to, screening for prostate, cervical, colorectal, and breast cancer, and screening for sickle cell anemia, blood lead level, and blood cholesterol level. Other examples include screening for immunity system disorders such as HIV and blood sugar level testing for diabetes.

If an employee has more than 80 hours of accrued sick leave, the employee may not use the 4 hours of excused absence for preventive health screenings, since employees with more than 80 hours of accrued sick leave have sufficient reserves of paid leave to use for this purpose. Such employees may use credit hours or previously earned compensatory time off for preventive health screenings.

The 4 hours of excused absence may be used a portion at a time over more than 1 day during a leave year for preventive health screenings. The days on which excused absence is used do not have to be consecutive.

With respect to the timing of when an employee may take 4 hours off for a preventive health screening, agencies should accommodate an employee's request to the greatest extent practicable. However, agencies may ask employees to schedule their health screening for another day if it would adversely affect agency operations. Of course, if an employee has a compelling health reason for an immediate health screening or test, the agency should take that into consideration.

Employees may also be granted excused absence to participate in smoking cessation activities or for other types of preventive health services, if such services are sponsored by the agency. For instance, agencies may grant excused absence for programs on nutrition education, health promotion activities, and annual health fairs. An employee may not, however, be granted

excused absence to accompany a family member receiving preventive health screenings, such as stress tests, children's immunizations, and flu shots. Excused absence is not appropriate for these purposes.

Remember that while the executive memorandum encourages agencies to incorporate provisions into existing policy to allow employees time off to take advantage of health screening programs and other preventive health measures, agencies are not required to do so by law. Therefore, employees should check with their human resources office to determine their agency's policy.

Sick Leave for Family Care or Bereavement Purposes

Most federal employees may use a total of up to 104 hours (13 workdays) of sick leave each leave year to -

- provide care for a family member who is incapacitated as a result of physical or mental illness, injury, pregnancy, or childbirth;
- provide care for a family member as a result of medical, dental, or optical examination or treatment; or
- make arrangements necessitated by the death of a family member or attend the funeral of a family member.

A covered full-time employee may use 40 hours (5 workdays) of sick leave each leave year for these purposes. An additional 64 hours (8 workdays) of sick leave may be used each year if the employee maintains a balance of at least 80 hours of sick leave in his or her account.

Part-time employees and employees with uncommon tours of duty are also covered, and the amount of sick leave permitted for family care and bereavement purposes is pro-rated in proportion to the average number of hours of work in the employee's scheduled tour of duty each week.

Agencies may advance only the first 40 hours of sick leave (or a proportional amount for an employee on a part-time schedule or uncommon tour of duty).

"Family member" is defined as -

- spouse, and parents thereof;
- children, including adopted children, and spouses thereof;
- parents;
- brothers and sisters, and spouses thereof; and
- any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship.

Sick Leave to Care for Family Member with Serious Health Condition

Most federal employees may use a total of up to 12 administrative workweeks of sick leave each leave year to care for a family member with a serious health condition. If an employee previously has used any portion of the 13 days of sick leave for general family care or bereavement purposes in a leave year, that amount must be subtracted from the 12-week entitlement. If an employee has already used 12 weeks of sick leave to care for a family member with a serious health condition, he or she cannot use an additional 13 days in the same leave year

for general family care purposes. An employee is entitled to a total of 12 weeks of sick leave each year for all family care purposes.

“Family member” is defined as-

- spouse, and parents thereof;
- children, including adopted children, and spouses thereof;
- parents;
- brothers and sisters, and spouses thereof; and
- any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship.

The term “serious health condition” has the same meaning as used in OPM’s regulations for administering the Family and Medical Leave Act of 1993 (FMLA). That definition includes such conditions as cancer, heart attacks, strokes, severe injuries, Alzheimer’s disease, pregnancy, and childbirth. The term “serious health condition” is not intended to cover short-term conditions for which treatment and recovery are very brief. The common cold, the flu, earaches, upset stomach, headaches (other than migraines), routine dental or orthodontia problems, etc., are not serious health conditions unless complications arise. The agency may require medical certification of a serious health condition.

The same limitations apply to the use of sick leave to care for a family member with a serious health condition as apply to the use of sick leave for general family care or bereavement purposes. A covered full-time employee may use 40 hours (5 workdays) of sick leave each leave year for these purposes. An employee may use additional sick leave for general family care or bereavement purposes or to care for a family member with a serious health condition if he or she maintains a balance of at least 80 hours of sick leave in his or her account. Only the first 40 hours of sick leave (or a proportional amount for an employee on a part-time schedule or uncommon tour of duty) may be advanced.

Sick Leave for Adoption

An employee may use sick leave for purposes related to the adoption of a child. The agency may advance up to 30 days of sick leave for adoption-related purposes.

Examples of “adoption-related purposes” may include, but are not limited to:

- Appointments with adoption agencies, social workers, and attorneys;
- Court proceedings;
- Required travel;
- Any periods of time the adoptive parents are ordered or required by the adoption agency or by the court to take time off from work to care for the adopted child; and
- Any other activities necessary to allow the adoption to proceed.

Adoptive parents who voluntarily choose to be absent from work to bond with or care for an adopted child may not use sick leave for this purpose. Parents may use annual leave or leave without pay for these purposes. An agency may request administratively acceptable evidence for absences related to adoption.

Bone Marrow or Organ Donor Leave

An employee may use up to 7 days of paid leave each calendar year to serve as a bone-marrow donor. An employee also may use up to 30 days of paid leave each calendar year to serve as an organ donor. Leave for bone marrow and organ donation is a separate category of leave that is in addition to annual and sick leave. Agencies are responsible for informing their employees of the entitlement to leave for bone marrow and organ donation.

Court Leave

An employee is entitled to paid time off without charge to leave for service as a juror or witness. An employee is responsible for informing his or her supervisor if he or she is excused from jury or witness service for one day or more or for a substantial part of a day. To avoid undue hardship, an agency may adjust the schedule of an employee who works nights or weekends and is called to jury duty. (If there is no jury/witness service, there is no court leave. The employee would be charged annual leave, sick leave, or leave without pay, as appropriate.)

An employee who is summoned to serve as a juror in a judicial proceeding is entitled to court leave. An employee who is summoned as a witness in a judicial proceeding in which the Federal, State, or local government is a party is entitled to court leave.

An employee who is summoned as a witness in an official capacity on behalf of the federal government is on official duty, not court leave.

Employees must reimburse to their agency fees paid for service as a juror or witness. However, monies paid to jurors or witnesses that are in the nature of “expenses” (e.g., transportation) do not have to be reimbursed to the agency.

Family and Medical Leave

Under the Family and Medical Leave Act of 1993 (FMLA), most federal employees are entitled to a total of up to 12 workweeks of unpaid leave during any 12-month period for the following purposes:

- the birth of a son or daughter of the employee and the care of such son or daughter;
- the placement of a son or daughter with the employee for adoption or foster care;
- the care of spouse, son, daughter, or parent of the employee who has a serious health condition; or
- a serious health condition of the employee that makes the employee unable to perform the essential functions of his or her position.

Under certain conditions, an employee may use the 12 weeks of FMLA leave intermittently. An employee may elect to substitute annual leave and/or sick leave, consistent with current laws and OPM’s regulations for using annual and sick leave, for any unpaid leave under the FMLA. (The amount of sick leave that may be used to care for a family member is limited.) Note that FMLA leave is in addition to other paid time off available to an employee.

Upon return from FMLA leave, an employee must be returned to the same position or to an “equivalent position with equivalent benefits, pay, status, and other terms and conditions of employment.”

An employee who takes FMLA leave is entitled to maintain health benefits coverage. An employee on unpaid FMLA leave may pay the employee share of the premiums on a current basis or pay upon return to work.

An employee must provide notice of his or her intent to take family and medical leave not less than 30 days before leave is to begin, or in emergencies, as soon as is practicable. An agency may request medical certification for FMLA leave taken to care for an employee's spouse, son, daughter, or parent who has a serious health condition or for the serious health condition of the employee.

Military Leave

An employee is entitled to time off at full pay for certain types of active or inactive duty in the National Guard or as a Reserve of the Armed Forces. Any full-time federal civilian employee whose appointment is not limited to 1 year is entitled to military leave. Military leave is prorated for part-time career employees and employees on an uncommon tour of duty.

Types of Military Leave

5 U.S.C. 6323 (a) provides 15 calendar days per fiscal year for active duty, active duty training, and inactive duty training. An employee can carry over a maximum of 15 days into the next fiscal year. Inactive Duty Training is authorized training performed by members of a Reserve component not on active duty and performed in connection with the prescribed activities of the Reserve component. It consists of regularly scheduled unit training periods, additional training periods, and equivalent training.

5 U.S.C. 6323 (b) provides 22 workdays per calendar year for emergency duty as ordered by the President or a State governor. This leave is provided for employees who perform military duties in support of civil authorities in the protection of life and property.

5 U.S.C. 6323(c) provides unlimited military leave to members of the National Guard of the District of Columbia for certain types of duty ordered or authorized under title 39 of the District of Columbia Code.

5 U.S.C. 6323(d) provides that Reserve and National Guard Technicians only are entitled to 44 workdays of military leave for duties overseas under certain conditions.

Days of Leave

Military leave should be credited to a full-time employee on the basis of an 8-hour workday. The minimum charge to leave is 1 hour. An employee may be charged military leave only for hours that the employee would otherwise have worked and received pay.

Employees who request military leave for inactive duty training (which generally is 2, 4, or 6 hours in length) will now be charged only the amount of military leave necessary to cover the period of training and necessary travel. Members of the Reserves and National Guard will no longer be charged military leave for weekends and holidays that occur within the period of military service.

A full-time employee working a 40-hour workweek will accrue 120 hours (15 days x 8 hours) of military leave in a fiscal year, or the equivalent of three 40-hour workweeks. Military leave under 6323(a) will be prorated for part-time employees and for employees on uncommon tours of duty based proportionally on the number of hours in the employee's regularly scheduled biweekly pay period. Here are some examples:

Hours in the regularly scheduled biweekly pay period	Ratio of hours in the regularly scheduled pay period to an 80-hour pay period (the number of hours in the pay period ÷ 80)	Hours of military leave accrued each fiscal year	Pay Periods of military leave accrued each fiscal year.
40	.5 (40 ÷ 80)	.5 x 120 = 60 hours	1.5 40-hour pay periods
106	1.325 (106 ÷ 80)	1.325 x 120 = 159 hours	1.5 106-hour pay periods
120	1.5 (120 ÷ 80)	1.5 x 120 = 180 hours	1.5 120-hour pay periods
144	1.8 (144 ÷ 80)	1.8 x 120 = 216 hours	1.5 144-hour pay periods

Effect on Civilian Pay

An employee's civilian pay remains the same for periods of military leave under 5 U.S.C. 6323(a), including any premium pay (except Sunday premium pay) an employee would have received if not on military leave. For military leave under 5 U.S.C. 6323(b) and (c), the employee's civilian pay is reduced by the amount of military pay for the days of military leave. However, an employee may choose not to take military leave and instead take annual leave in order to retain both civilian and military pay.

Leave Without Pay

Leave without pay (LWOP) is a temporary nonpay status and absence from duty that, in most cases, is granted at the employee's request. In most instances, granting LWOP is a matter of supervisory discretion and may be limited by agency internal policy.

Employees, however, have an entitlement to LWOP in the following situations:

- The Family and Medical Leave Act of 1993 (FMLA) provides covered employees with an entitlement to a total of up to 12 weeks of unpaid leave (LWOP) during any 12-month period for certain family and medical needs.
- The Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) provides employees with an entitlement to LWOP when employment with an employer is interrupted by a period of service in the uniformed service.
- Executive Order 5396, July 17, 1930, provides that disabled veterans are entitled to LWOP for necessary medical treatment.
- Employees may not be in a pay status while receiving workers' compensation payments from the Department of Labor.

Employees should be aware that LWOP affects their entitlement to or eligibility for certain federal benefits.

Leave Transfer and Leave Bank Programs

Leave Bank Program

An employee who is a member of his or her agency's voluntary leave bank may receive annual leave from the leave bank if the employee experiences a personal or family medical emergency and has exhausted his or her available paid leave. The agency's leave bank board operates the leave bank and determines how much donated annual leave an employee may receive from the leave bank. Any unused donated annual leave is returned to the leave bank.

Leave Bank Member

To become and remain a leave bank member, an employee must donate each leave year not less than the amount of annual leave he or she normally accrues in a pay period (i.e., 4, 6, or 8 hours).

Leave Recipient

A potential leave recipient's employing agency must determine that the full-time employee's absence from duty without available paid leave because of the medical emergency is (or is expected to be) at least 24 hours. For part-time employees or employees on uncommon tours of duty, the period of absence without paid leave is prorated. An employee may receive donated annual leave when he or she becomes an approved leave recipient.

Minimum and Maximum Limitations on Leave Donations

In any leave year, an employee may donate not more than one-half of the amount of annual leave he or she would accrue during the leave year. For employees with "use or lose" annual leave, the employee may donate the lesser of one-half of the annual leave he or she would accrue in a leave year or the number of hours remaining in the leave year for which the employee is scheduled to work and receive pay.

Set-Aside Accounts

While using donated leave, a leave recipient may accrue no more than 40 hours of annual leave and 40 hours of sick leave in "set-aside accounts." The leave in the set-aside accounts will be transferred to the employee's regular leave accounts when the medical emergency ends or if the employee exhausts all donated leave.

Leave Transfer Program

An employee may donate annual leave directly to another federal employee who has a personal or family medical emergency and who has exhausted his or her available paid leave. Each agency must administer a voluntary leave transfer program for its employees. There is no limit on the amount of donated annual leave a leave recipient may receive from the leave donor(s). However, any unused donated leave must be returned to the leave donor(s) when the medical emergency ends.

Emergency Leave Transfer Program

In the event of major disasters or emergencies declared by the President, such as floods, earthquakes, tornadoes, bombings, etc., that result in severe adverse effects for a substantial number of employees, the President may direct OPM to establish an emergency leave transfer program. Under such a program, an employee in any Executive agency may donate annual leave for transfer to employees of his or her agency or to employees of other agencies who are adversely affected by the disaster or emergency. This program provides federal employees with a special opportunity to help their fellow workers in times of need.

Holidays

The following days have been established by Congress as legal public holidays each year:

New Year's Day (January 1)
Birthday of Martin Luther King, Jr. (Third Monday in January)
Washington's Birthday (Third Monday in February)
Memorial Day (Last Monday in May)
Independence Day (July 4)
Labor Day (First Monday in September)
Columbus Day (Second Monday in October)
Veterans Day (November 11)
Thanksgiving Day (Fourth Thursday in November)
Christmas Day (December 25)

'In Lieu of' Holidays

All full-time employees, including those on flexible or compressed work schedules, are entitled to an "in lieu of" holiday when a holiday falls on a non-workday. In such cases, the employee's holiday is the basic workday immediately preceding the non-workday. A basic workday for this purpose includes a day when part of the basic work requirement for an employee under a flexible work schedule is planned or scheduled to be performed.

There are three exceptions:

- If the non-workday is Sunday (or an "in lieu of" Sunday), the next basic workday is the "in lieu of" holiday.
- If Inauguration Day falls on a non-workday, there is no provision for an "in lieu of" holiday.
- If the head of an agency determines that a different "in lieu of" holiday is necessary to prevent an "adverse agency impact," he or she may designate a different "in lieu of" holiday for full-time employees under compressed work schedules.

An employee is not entitled to another day off as an "in lieu of" holiday if a federal office or facility is closed on a holiday because of a weather emergency or when employees are furloughed on a holiday.

Holidays for Employees Outside the United States

Holidays designated by law to occur on Monday (i.e., Birthday of Martin Luther King, Jr., Washington's Birthday, Memorial Day, Labor Day, and Columbus Day) are moved to Sundays

for employees at duty posts outside the United States who are regularly scheduled to work on Monday. This applies to employees whose basic workweek is Sunday through Thursday. However, it does not apply to employees whose basic workweek is Monday through Friday or Monday through Saturday. This rule does not apply to “in lieu of” holidays.

Presidential Closing of Agencies

Presidents occasionally issue Executive Orders closing federal departments and agencies for part or all of a workday. Employees are excused from duty during such periods unless they are “emergency employees,” as determined by their agencies. Such Executive Orders often provide that the time off will be treated like a holiday for pay and leave purposes. Employees who are required to work during their basic tour of duty on such days are entitled to holiday premium pay.

Part-Time Employees

A part-time employee is entitled to a holiday when the holiday falls on a day when he or she would otherwise be required to work or take leave. This does not include overtime work. If a holiday falls on a non-workday, part-time employees are not entitled to an “in lieu of” holiday. If an agency’s office or facility is closed due to an “in lieu of” holiday for full-time employees, the agency may grant paid excused absence to part-time employees who are otherwise scheduled to work on that day.

2004 and 2005 Federal Holidays

The following are public holidays for the years 2004 and 2005. Please note that most federal employees work on a Monday through Friday schedule. For these employees, when a holiday falls on a non-workday - Saturday or Sunday - the holiday usually is observed on Monday (if the holiday falls on Sunday) or Friday (if the holiday falls on Saturday).

2004 Federal Holidays

Thursday, January 1	New Years Day
Monday, January 19	Birthday of Martin Luther King, Jr.
Monday, February 16	Washington’s Birthday
Monday, May 31	Memorial Day
Monday, July 5	Independence Day
Monday, September 6	Labor Day
Monday, October 11	Columbus Day
Thursday, November 11	Veterans Day
Thursday, November 25	Thanksgiving Day
Friday, December 24	Christmas Day

Friday, December 31 New Years Day 2005

2005 Federal Holidays

Friday, December 31, 2004	New Years Day
Monday, January 17	Birthday of Martin Luther King, Jr.
Monday, February 21	Washington's Birthday
Monday, May 30	Memorial Day
Monday, July 4	Independence Day
Monday, September 5	Labor Day
Monday, October 10	Columbus Day
Friday, November 11	Veterans Day
Thursday, November 24	Thanksgiving Day
Monday, December 26	Christmas Day

Alternative Work Schedules

An agency may implement for its employees an alternative work schedule (AWS) instead of a traditional fixed work schedule (e.g., 8 hours per day, 40 hours per week). Within rules established by the agency, alternative work schedules can enable employees to have work schedules that help them balance their work and family responsibilities. There are two categories of Alternative Work Schedules: Compressed Work Schedules (CWS) and Flexible Work Schedules (FWS).

Compressed Work Schedules

Compressed Work Schedules (CWS) are fixed work schedules, but they enable full-time employees to complete the basic 80-hour biweekly work requirement in less than 10 workdays.

Employee Coverage

A Federal employee, as defined in section 2105(a) or (c) of title 5, United States Code, who is employed by an agency, as defined in 5 U.S.C. 6121(1), may be covered by a CWS. An employee may request to be excluded for a personal hardship.

Implementation Restrictions

For employees in a bargaining unit: The agency must successfully negotiate a CWS program with the union for a represented group of employees prior to implementation.

For employees not in a bargaining unit: The agency must secure a favorable vote from the majority of employees in the affected group before implementing a CWS program.

Credit Hours

Credit hours are not permitted under a CWS program.

Overtime

For full-time employees, all hours worked in excess of the established compressed work schedule are overtime hours.

Compensatory Time Off

An employee on a CWS may request compensatory time off only for the performance of irregular or occasional overtime work. Compensatory time off may not be approved for any member of the Senior Executive Service (SES).

Night Pay

The normal premium pay rules apply for night pay. See 5 CFR 550.121 and 122 for General Schedule employees and 5 CFR 532.505 for prevailing rate employees.

Holidays

On holidays, an employee is normally excused from work and entitled to basic pay for the number of hours of his or her CWS on that day. In the event the President issues an Executive Order granting a “half-day” holiday, full-time CWS employees are normally excused from work during the last half of their “basic work requirement” (i.e., nonovertime hours) on that day.

Holiday Premium Pay

Holiday premium pay (equal to 100 percent of the rate of basic pay) is paid for nonovertime hours of work that fall within the hours regularly scheduled on the holiday.

Sunday Premium Pay

Sunday premium pay is paid for nonovertime work performed by full-time employees. For an employee on a CWS, Sunday premium pay is paid for the entire nonovertime regularly scheduled tour of duty that begins or ends on Sunday. It may not be paid for periods of nonwork, including leave, holidays, and excused absence.

Flexible Work Schedules

Flexible Work Schedules (FWS) consist of workdays with (1) core hours and (2) flexible hours. Core hours are the designated period of the day when all employees must be at work. Flexible hours are the part of the workday when employees may (within limits or “bands”) choose their time of arrival and departure. Within limits set by their agencies, FWS can enable employees to select and alter their work schedules to better fit personal needs and help balance work, personal, and family responsibilities.

Employee Coverage

A Federal employee, as defined in section 2105(a) or (c) of title 5, United States Code, who is employed by an agency, as defined in 5 U.S.C. 6121(1), may be covered by a flexible work schedule. Flexible work schedules are voluntary work schedules that are approved by supervisors or managers.

Credit Hours

Credit hours are any hours within an FWS that are in excess of an employee’s basic work requirement (e.g., 40 hours a week) that the employee elects to work to vary the length of a workweek or a workday. Agencies may limit or restrict the earning and use of credit hours. OPM regulations prohibit Senior Executive Service (SES) members from accumulating credit hours under AWS programs. The law prohibits carrying over more than 24 credit hours from one pay period to the next.

Types of FWS

There are various types of FWS arrangements that provide different degrees of flexibility. These include flexitour, gliding, variable day, variable week, and maxiflex schedules.

Overtime Hours

Overtime work means all hours of work in excess of 8 hours in a day or 40 hours in a week which are officially ordered in advance.

Compensatory Time Off

An employee who is not a member of the Senior Executive Service may request compensatory time off in lieu of payment for irregular or occasional overtime work or regularly scheduled overtime work.

Night Pay

In general, premium pay for night work is not paid to a General Schedule (GS) employee solely because the employee elects to work credit hours, or elects a time of arrival or departure, at a time when night pay is authorized.

However, agencies must pay night pay to GS employees for those hours that must be worked between 6 p.m. and 6 a.m. to complete an 8-hour tour of duty. Agencies must also pay night pay for all designated core hours worked between 6 p.m. and 6 a.m. and for any regularly scheduled overtime work between those hours.

Note: For prevailing rate (wage) employees, see 5 U.S.C. 6123(c)(2).

Holidays

On holidays, a full-time FWS employee is limited to 8 hours of basic pay. A part-time FWS employee is entitled to basic pay for the number of hours scheduled for the holiday, not to exceed 8 hours. In the event the President issues an Executive Order granting a “half-day” holiday, full-time FWS employees are entitled to basic pay for the last half of their “basic work requirement” (i.e., nonovertime hours) on that day, not to exceed 4 hours.

Holiday Premium Pay

Holiday premium pay (equal to 100 percent of the rate of basic pay) is limited to nonovertime hours worked, not to exceed a maximum of 8 nonovertime hours per holiday.

Sunday Premium Pay

Sunday premium pay is paid for nonovertime work performed by full-time employees only. A full-time FWS employee earns Sunday premium pay for an entire nonovertime regularly scheduled tour of duty (not to exceed 8 hours) that begins or ends on Sunday. It may not be paid for periods of nonwork, including leave, holidays, and excused absence.

Adjustment Of Work Schedules For Religious Observance

To the extent that modifications in work schedules do not interfere with the efficient accomplishment of an agency’s mission, an employee whose personal religious beliefs require that he or she abstain from work at certain times of the workday or workweek must be permitted to work alternative work hours so that the employee can meet the religious obligation. The hours worked in lieu of the normal work schedule do not create any entitlement to premium pay (including overtime pay). Adjustments of work schedules for religious observances may be approved for an employee who is employed in or under an executive agency.

Approval

Agencies should require employees to submit a written request for an adjusted work schedule in advance. An employee should specifically state that his or her request for an adjusted work

schedule is for religious purposes and should provide acceptable documentation of the need to abstain from work.

When deciding whether an employee's request for an adjusted work schedule should be approved, a supervisor should not make any judgment about the employee's religious beliefs or his or her affiliation with a religious organization. A supervisor may disapprove an employee's request if modifications of an employee's work schedule would interfere with the efficient accomplishment of the agency's mission. If an employee's request is approved, a supervisor may determine whether the alternative work hours will be scheduled before or after the religious observance.

Documenting An Adjusted Work Schedule

An employee's request for time off should not be granted without simultaneously scheduling the hours during which the employee will work to make up the time. This provides a clear record of the employee's adjusted work schedule. An employee should be allowed to accumulate only the number of hours of work needed to make up for previous or anticipated absences from work for religious observances.

If an employee is absent when he or she is scheduled to perform work to make up for a planned absence for a religious observance, the employee must take paid leave, request leave without pay, or be charged absent without leave, if appropriate. These are the same options that apply to any other absence from an employee's basic work schedule.

Impact on Pay

The overtime pay provisions of title 5, United States Code, and the Fair Labor Standards Act of 1938, as amended, do not apply to employees who work different hours or days because of religious observances, even if an employee voluntarily works in excess of 40 hours per week or 8 hours per day for this purpose. If an employee is separated or transferred before using the time set aside for religious observances, any hours not used must be paid at the employee's rate of basic pay in effect when the extra hours of work were performed.

Employee Assistance Programs

Every federal agency has an Employee Assistance Program (EAP), which has the goal of helping employees with any problems they may face and restoring them to full productivity. Specifically, the EAP provides free, confidential short term counseling to identify the employee's problem and, when appropriate, to make a referral to an outside organization, facility, or program that can assist the employee in resolving the issue. It is the employee's responsibility to follow through with this referral, and it is also the employee's responsibility to make the necessary financial arrangements for any treatment, as with any other medical condition.

EAPs are available for employees who have alcohol and/or drug problems and who are seeking rehabilitation and the opportunity to become fully productive members of the workforce. Managers and supervisors are urged to become familiar with the EAP and to make referrals and/or to recommend to employees that they seek help through the EAP. Participation in the EAP is voluntary. It is the employee's decision whether to participate or not.

In addition to substance abuse problems, most agency EAPs provide comprehensive counseling and referral services to help employees achieve a balance among work, family, and other responsibilities. Job effectiveness can be adversely affected when employees are faced with mental or emotional problems, difficult family situations, unusual financial or legal difficulties, or dependent care needs. EAP can be extremely important in the prevention of, and intervention in, workplace violence incidents; the delivery of critical incident stress debriefings; and providing assistance to employees during agency restructuring.

To locate the EAP serving your federal agency, call your Human Resources office and ask for the telephone number.

Federal Employees Health Benefits Program

The Federal Employees Health Benefits (FEHB) Program is the largest employer-sponsored group health insurance program in the world, covering approximately 9 million people including employees, annuitants, and their family members, as well as some former spouses and former employees. The FEHB Program offers fee-for-service plans, and their Preferred Provider Organizations, or plans offering a Point of Service (POS) product, or Health Maintenance Organizations (HMOs) if you live (or sometimes if you work) within the area serviced by the plan. This chapter covers all the aspects of the FEHB program, as well as Temporary Continuation of Coverage (TCC), which is a feature that allows certain people to temporarily continue their FEHB coverage after their regular coverage ends.

Enrolling

You can enroll in FEHB if you are:

- a permanent federal employee with a regularly scheduled tour of duty;
- a temporary employee with an appointment for longer than one year; or
- a temporary employee with an appointment limited to one year or less, and you have completed one year of current continuous employment (excluding any break in service of 5 days or less).

You are not eligible to enroll if you are an intermittent employee (you don't have a prearranged regular tour of duty) or if your position is excluded from coverage by law or regulation.

You do not have to join the FEHB program if you don't want to. You decide whether you want to participate in the FEHB Program. When you first become eligible, your human resources office will ask you to choose either to enroll or not to enroll. If you don't enroll when you first become eligible, you won't be able to enroll until Open Season or until another event permitting enrollment occurs.

What the FEHB Program Offers

The FEHB Program offers:

- Group-rated premiums and benefits;
- A government contribution toward the cost of your plan;
- Your choice of plans and options;
- Annual enrollment opportunities (called Open Season);
- Guaranteed coverage that your plan can't cancel;
- No waiting periods, medical examinations or restrictions because of age or physical condition;
- Catastrophic protection against unusually large medical bills;
- Salary deduction for premiums;
- Temporary continuation of FEHB coverage or conversion to an individual contract after your enrollment or a family member's coverage ends;

- Continued group coverage into retirement or while you are receiving Workers' Compensation; and
- Continued group coverage for your family after you die.

Learning About Participating Health Plans

Before you enroll, your human resources office will give you a copy of the most current Guide to Federal Employees Health Benefits Plans. Use that to decide which health plans you are interested in, and request those plans' brochures from your human resources office. Read the brochures carefully to find out what each plan covers, its rules, its exclusions, and its limitations. Once you enroll, your health plan will send you an updated brochure every year that specifies changes for the upcoming year. If you want to continue your current enrollment, you don't have to do anything during Open Season. If your agency participates in Employee Express, you can make enrollment changes online during Open Season.

Cost of FEHB Coverage

You share the cost of your health benefits coverage with the government. Most full-time employees pay approximately 25% of the total premium. Premiums and the government contribution change yearly. If you are a part-time employee, your share of the premiums will be greater than for a full-time employee. Ask your human resources office for information about the cost of your enrollment. If you are a temporary employee, former spouse, or person enrolled under temporary continuation of coverage, the government does not contribute toward the cost of your enrollment. You must pay both the government and employee shares of the cost.

Premium Conversion

Premium conversion is a method of reducing your taxable income by the amount of your FEHB insurance premium. Section 125 of the Internal Revenue Code allows your employer to provide a portion of your salary in pre-tax benefits rather than in cash. The effect is that your taxable income is reduced. You save on:

- Federal income tax,
- Social Security tax,
- Medicare tax, and
- State and local income tax (in most States and localities).

Premium conversion has no effect on:

- statutory pay provisions,
- the General Schedule,
- the amount of your health insurance premium,
- the government contribution towards your FEHB premium, or
- your base pay for retirement, life insurance, or the Thrift Savings Plan.

You are automatically enrolled in premium conversion effective the first pay period on or after October 1, 2000, if you are an active employee of the Executive Branch of the federal government and you participate in the FEHB Program. If the Executive Branch does not employ you, or an Executive Branch agency does not issue your pay, you may participate in premium conversion if your employer offers it. The federal judiciary, the U.S. Postal Service, and some Executive Branch agencies with independent compensation-setting authority already offer their own premium conversion plans.

You may only waive participation in premium conversion:

- At the initial premium conversion effective date;
- During an open season;
- When you are first hired or hired as a reemployed annuitant;
- When you leave federal service and are rehired in a different calendar year; or
- When you have a qualifying life event (whether or not you change your FEHB enrollment).

You can cancel your waiver and participate in premium conversion:

- When you have a qualifying life event; or
- During an open season.

Retirees and persons paying FEHB premiums directly (not by payroll deduction) are not eligible for premium conversion.

A qualifying life event includes:

- Addition of a dependent;
- Birth or adoption of a child;
- Changes in entitlement to Medicare or Medicaid for you, your spouse, or dependent;
- Change in work site;
- Change in your employment status or that of your spouse or dependent from either full-time to part-time, or the reverse;
- Death of your spouse or dependent;
- Divorce or annulment;
- Loss of a dependent;
- Marriage;
- Significant change in the health coverage of you or your spouse related to your spouse's employment;
- Start or end of an unpaid leave of absence by you or your spouse;
- Start or end of your spouse's employment.

Types of Plans Available

Two types of plans participate in the FEHB Program: fee-for-service plans and health maintenance organizations (HMOs).

Fee-for-Service Plans

These plans reimburse you or your health care provider for the cost of covered services. You may choose your own physician, hospital, and other health care providers. Most fee-for-service plans have preferred provider (PPO) arrangements. If you receive services from a preferred provider, you usually have lower out-of-pocket expenses (i.e., a smaller copayment and/or a reduced or waived deductible). All fee-for-service plans require precertification of inpatient admissions and preauthorization of certain procedures.

Fee-for-service plans include:

- The Governmentwide Service Benefit Plan, administered by the Blue Cross and Blue Shield Association on behalf of Blue Cross and Blue Shield Plans, and is open to everyone eligible to enroll under the FEHB Program.

- Plans sponsored by unions and employee organizations. Some of these plans are open to all Federal employees who hold full or associate memberships in the organizations that sponsor the plans; others are restricted to employees in certain occupational groups and/or agencies. Generally, the employee organization requires a membership fee or dues paid directly to the employee organization, in addition to the premium. This fee is set by the employee organization and is not negotiated with OPM.

Health Maintenance Organizations

Health Maintenance Organizations (HMOs) provide or arrange for comprehensive health care services on a prepaid basis through designated plan physicians, hospitals, and other providers in particular locations. Each HMO sets a geographic area for which health care services will be available, called its service area. This area is described in the plan's brochure. You may join a particular HMO if you live within its service area. Some plans also accept enrollments from employees who work in the area even though they live elsewhere. If you have questions about whether you live or work within a HMO's service area, you should contact the plan before you enroll in it.

Generally, you must choose a primary care physician and have all care coordinated through that physician. Your physician is responsible for obtaining any pre-certification required for inpatient admissions or other procedures.

The three types of HMOs are:

- Group Practice Plans. These plans provide care through groups of physicians who practice at medical centers.
- Individual Practice Plans. These plans provide care through participating physicians who practice in their own offices.
- Mixed Model Plans. These plans are a combination of Group Practice and Individual Practice plans.

Point of Service

Some fee-for-service plans and HMOs offer a point of service product. This gives you the choice of using a designated network of providers or using non-network providers at an additional cost to you. If you don't use network providers, you must pay substantial deductibles, coinsurance, and copayments.

Types of Enrollment Available

The FEHB Program offers two types of enrollment:

Self Only

A self only enrollment provides benefits only for you as the enrollee. You may enroll for self only even though you have a family, but they will not be eligible for FEHB coverage (even upon your death or disability).

Self and Family

A self and family enrollment provides benefits for you and your eligible family members. All of your eligible family members are automatically covered, even if you didn't list them on your Health Benefits Election Form (SF 2809) or other appropriate request. You cannot exclude any eligible family member and you cannot provide coverage for anyone who is not an eligible family member.

You may enroll for self and family coverage before you have any eligible family members. Then, a new eligible family member (such as a newborn child or a new spouse) will be automatically covered by your family enrollment from the date he/she becomes a family member. When a new family member is added to your existing self and family enrollment, you do not have to complete a new SF 2809 or other appropriate request, but your carrier may ask you for information about your new family member. You will send the requested information directly to the carrier. Exception: if you want to add a foster child to your coverage, you must provide eligibility information to your employing office.

Both Husband and Wife Eligible to Enroll

If both you and your spouse are eligible to enroll, one of you may enroll for self and family to cover your entire family. If you have no eligible children to cover, each of you may enroll for self only in the same or different plans. Generally, you will pay lower premiums for two self only enrollments.

Coverage for Family Members

The family members covered under a "self and family" enrollment are:

- Your spouse;
- Your unmarried dependent children under age 22. In addition to natural children of a marriage, this includes: (1) your legally adopted child; (2) your recognized natural child, if you live together in a parent-child relationship, or the child is financially dependent upon you, or if there is a judicial determination of support; (3) your stepchild, if you live together in a parent-child relationship; (4) your foster child, if you live together in a parent-child relationship and you expect to raise the child to adulthood; and (5) your unmarried dependent child age 22 or over who is incapable of self-support because of a disability that existed before age 22. (You must expect the disability to continue for at least one year, and the disability must be the reason the child isn't capable of self-support.)

When Family Members Lose Coverage

Your spouse immediately loses coverage under your self and family enrollment when your divorce decree or annulment is final (according to State law).

Your child immediately loses coverage under your self and family enrollment when:

- Your child reaches age 22, unless he or she is incapable of self support;
- Your child marries;
- Your disabled child age 22 or over marries or becomes capable of self-support; or
- Your stepchild or foster child stops living with you in a parent-child relationship.

Your family member will get a 31-day extension of coverage. He or she will be eligible to elect temporary continuation of FEHB coverage or may elect to convert coverage to an individual contract. Your former spouse may be eligible to enroll for FEHB coverage under Spouse Equity provisions. Your family members also lose coverage if you change from a self and family to a self only enrollment. Neither your human resources office nor your plan will notify you when your family member loses eligibility. You should immediately tell your plan when a family member loses coverage. If your plan pays for services received after your family member's coverage ends, you must repay the plan.

Changing from Self and Family to Self Only Enrollment

If you participate in premium conversion, you may change to a self only enrollment during the annual Open Season or within 60 days after you have a qualifying life event. The change in enrollment must be consistent with your qualifying life event. For example, if you get divorced, changing to a self only enrollment would be consistent with that qualifying life event. If you adopt a child, a change from self and family to self only coverage would not be consistent with that qualifying life event. If you have waived participation in premium conversion, you may change to a self only enrollment or cancel your enrollment at any time.

When a Former Spouse Can Continue FEHB Coverage

Your former spouse may be eligible to continue FEHB coverage under Spouse Equity if your former spouse:

- was divorced from you during your federal employment or receipt of annuity;
- was covered as a family member under an enrollment at least one day during the 18 months before your marriage ended;
- is entitled to a portion of your annuity or to a former spouse survivor annuity; and
- does not remarry before age 55.

You or your former spouse must apply to your human resources office for Spouse Equity coverage within 60 days from the divorce. If your former spouse is not eligible to enroll under Spouse Equity, he or she may be eligible to continue FEHB coverage under Temporary Continuation of Coverage provisions.

When Coverage is Permitted Under More Than One FEHB Enrollment

Generally, you may not be covered under two plans at the same time. A human resources office may authorize a dual enrollment to:

- Protect children who would otherwise lose coverage as family members; or
- Allow an employee under age 22 covered under a parent's self and family enrollment to cover his or her dependent child.

No enrollee or family member may receive benefits under more than one FEHB enrollment.

When your human resources office authorizes a dual enrollment, you must notify the plan(s) of which family members are to be covered under each enrollment. For more information on dual enrollments, contact your human resources office.

Time Periods for Enrolling or Changing FEHB Enrollment

I am ...	When Can I Enroll?
A new employee	Within 60 days after your appointment date
Moving to a position that offers FEHB coverage. My previous position was excluded from coverage.	Within 60 days after your appointment date
An eligible employee, but I am not enrolled in FEHB	Open season, or when another event permitting enrollment occurs (such as a change in family status or employment status)
Enrolled in FEHB, and I want to change my enrollment	Open season, or when another event permitting enrollment occurs (such as a change in family status or employment status).

If you are an eligible temporary employee, all of the enrollment and enrollment change information applies to you with one exception. A decision not to enroll will not affect your future eligibility to continue FEHB enrollment after retirement.

To enroll or change your enrollment, you must file an enrollment request with your human resources office within the applicable time limits.

Important: You will not be eligible for FEHB coverage after retirement unless you are enrolled before you retire and meet all the requirements for continuing enrollment after retirement.

Major Events That Permit Enrollment or a Change in Enrollment

A change in family status:

- marriage;
- birth or adoption of a child;
- acquisition of a foster child;
- legal separation; or
- divorce.

A change in employment status:

- you are reemployed after a break in service of more than 3 days;
- you return to pay status after your coverage terminated during leave without pay status or because you were in leave without pay status for more than 365 days;
- your pay increases enough for premiums to be withheld;
- you are restored to a civilian position after serving in the uniformed services;
- you change from a temporary appointment to an appointment that entitles you to a government contribution; or
- you change to or from part-time career employment.

You or family members lose FEHB or other coverage:

- under another FEHB enrollment because the covering enrollment was terminated, canceled, or changed to self only;

- under another federally-sponsored health benefits program;
- under Medicaid or similar State-sponsored program for the needy;
- because your membership terminates in the employee organization sponsoring the FEHB plan; or
- under a non-federal health plan.

When one of these events occur, you may:

- enroll;
- change your enrollment from self only to self and family; or
- change your enrollment to another FEHB plan or option.

You also may waive or cancel your waiver of premium conversion at the same time. You must give your enrollment change to your human resources office from 31 days before to 60 days after the event.

When Enrollment Becomes Effective

Generally, the effective date of your enrollment or enrollment change is the first day of the pay period that follows:

- the day your human resources office receives your completed enrollment request; and
- a pay period during any part of which you were in pay status. (This pay status requirement doesn't apply to a change from self only to self and family.)

However, some events, such as open season, have different effective dates.

Form to Use for an Enrollment Request

You may use the Health Benefits Election form (SF 2809) to request a new enrollment or change in enrollment. The SF 2809 may be in either paper or electronic format. In addition, your human resources office may also allow you to make Open Season changes through "Employee Express" or another electronic method, which doesn't involve a SF 2809.

Effect on Enrollment if Your Physician Stops Participation

Generally speaking, if your physician stops participating in your health plan, this is not a qualifying event for changing your enrollment. However, if you have a chronic or disabling condition and your health plan terminates your provider's contract (unless the termination is for cause), you may be able to continue seeing your provider for up to 90 days after the notice of termination. If you are in the second or third trimester of pregnancy, you may continue seeing your obstetrician until the end of postpartum care.

When You Are Covered by Both FEHB and Medicare

Generally, your FEHB plan and Medicare provide protection against the same kind of medical expenses. Your FEHB plan also provides prescription drug coverage, routine physicals and a wider range of preventive services that Medicare does not. Some FEHB plans also provide coverage for dental and vision care. Medicare covers orthopedic and prosthetic devices, durable medical equipment, home health care, limited chiropractic services, and medical supplies, which some FEHB plans may not cover or only partially cover (check your plan brochure for details).

Whether your FEHB plan or Medicare is primary depends on your current employment or health status. Your FEHB plan brochure provides specific information on how its benefits are coordinated with Medicare.

Continuing FEHB Coverage After Retirement

You may continue your FEHB enrollment after you retire if:

- you are entitled to retire on an immediate annuity under a retirement system for federal civilian employees; and
- you have been continuously enrolled (or covered as a family member) in any FEHB plan(s) for the 5 years of service immediately before your annuity starts, or for the full period of service since your first opportunity to enroll (if less than 5 years).

An immediate annuity is one that begins within 30 days of separation for retirement. An annuity you receive under the Minimum Retirement Age (MRA)+10 provision of FERS also qualifies as an immediate annuity, even though you postponed receipt of your annuity after separating from service.

“Service” means time in a position in which you were eligible to be enrolled and receive a government contribution towards the cost of your enrollment. You do not need to have been enrolled in the same FEHB plan. Coverage under a non-FEHB plan doesn’t count toward the five-year or first-opportunity requirement, except that time covered under TRICARE counts as long as you are covered under an FEHB enrollment when you retire. Your first opportunity to enroll is within 60 days after you first become eligible to enroll, and receive a government contribution towards the cost of your enrollment. **OPM may waive the five-year requirement for continuation of enrollment after retirement only under exceptional circumstances.**

When Enrollment Continues Automatically

Transfer

Your FEHB enrollment will continue when you transfer from one agency to another, as long as you don’t have a break in service of more than three calendar days; and are eligible for FEHB coverage in your new position.

Leave Without Pay

Your FEHB enrollment will continue for up to one year while you are in leave without pay status, unless you cancel it. You must pay your share of the premiums. Your human resources office will tell you how to make the premium payments.

Military Service

Your FEHB enrollment will continue without change if you enter on active duty in the military service for 30 days or less. If you enter on active duty for more than 30 days, you may continue your FEHB enrollment for up to 18 months. You may have to pay your share of the premiums for the first 12 months, and you may have to pay an additional amount to continue coverage during the last 6 months of the 18-month period. Your human resources office will tell you whether you will have to pay premiums, how much the premiums will be, and how to make the premium payments. You may also choose to terminate your enrollment. You will get it back when you exercise your reemployment rights and return to civilian service. Your decision to

terminate your enrollment will not affect your future eligibility to continue FEHB enrollment after retirement as long as you enroll within 60 days after you return to civilian service.

Workers' Compensation

Your enrollment continues while you are receiving compensation from the Office of Workers' Compensation Programs (OWCP) if OWCP determines that you are unable to return to duty; and you meet the same requirements for continuing coverage as for retirement.

Effect of Your Death on Family Coverage

Your surviving eligible family members may continue your health benefits enrollment after you die if you had a self and family enrollment; and one family member is entitled to a survivor annuity. Your retirement system will take appropriate action with your survivors.

Canceling Your Enrollment

If you participate in premium conversion, you may cancel your enrollment only during an open season or upon a qualifying life event. The cancellation of coverage must be consistent with and correspond to your qualifying life event. For example, if you get married and your spouse is employed by a company that provides health insurance for you, then canceling FEHB coverage would be consistent with that qualifying life event. If you are divorcing and have children to cover, canceling coverage would not be consistent with that qualifying life event. If you have waived participation in premium conversion, you may cancel your enrollment at any time.

Your cancellation takes effect on the last day of the pay period in which your human resource office receives your request. You and your family members are not eligible for the 31-day extension of coverage, Temporary Continuation of Coverage, or conversion to an individual policy. When you cancel your enrollment, you may not enroll again until an event occurs (such as an open season or a change in family status) that permits enrollment.

You will not be eligible for health benefits coverage after your retirement unless you reenroll before you retire and meet all of the requirements for continuing enrollment into retirement. If you plan to reenroll in time to qualify for coverage as a retiree, keep in mind that you may have to retire earlier than expected. You then might not meet the five-year requirement for continuing coverage into retirement. When you cancel your enrollment you are accepting this risk. You may want to consider changing your enrollment to a lower cost plan instead of cancellation. If you are going to be covered by someone else's enrollment and do not want a gap in coverage, you can coordinate the effective dates of your cancellation and your new coverage.

When Your Enrollment Ends

Your enrollment will end, subject to a 31-day extension of coverage, when you:

- separate from service (unless you can retire and continue your enrollment);
- separate under the FERS MRA+10 provision and you postpone receiving your annuity (you will get FEHB coverage back when your annuity starts);
- change to a position that is excluded from coverage;
- die (your family may be eligible to continue coverage);
- have been on leave without pay for 365 consecutive days, or when your leave under the Family and Medical Leave Act expires, whichever is later;

- return to leave without pay status, if you haven't been in pay status for 4 consecutive months after 365 days of continued coverage while in leave without pay status;
- enter on active duty in the military service for more than 30 days, if you decide to terminate your enrollment;
- have completed 18 months of active duty in the military service, or your entitlement to continued coverage ends, whichever is earlier; or
- are a temporary employee whose pay is not enough to cover the premiums and you do not choose a lower-cost plan.

Getting Extension of Coverage After Enrollment Ends

Your coverage will continue without cost to you for 31 days after your enrollment ends for any reason except when you cancel it. During that time you can elect Temporary Continuation of Coverage or convert to an individual health benefits contract with your FEHB plan. Remember, you must exhaust TCC eligibility as one condition for guaranteed access to individual health coverage under the Health Insurance Portability and Accountability Act of 1996. Your family members are eligible for the extension of coverage when they lose coverage for any reason except when you cancel your enrollment. If you are hospitalized on the 31st day of extended coverage, your FEHB plan will continue to provide benefits for up to 60 more days of continuous hospitalization unless you converted to an individual contract.

Continuing FEHB Coverage After Separating from Service

You are eligible to temporarily continue your FEHB coverage for up to 18 months when you:

- separate from service, voluntarily or involuntarily, unless your separation is for gross misconduct; and
- are not otherwise eligible for continued coverage under the Program (not counting the 31-day extension of coverage).

Electing Temporary Continuation of Coverage

Your human resources office will give you notice of your temporary continuation of coverage (TCC) rights within 61 days after you separate from service. If you want TCC, you must elect it within 60 days from the later of your separation, or the date of your human resources office's notice.

You may choose self only or self and family coverage in any plan or option that you are eligible to join. You are not limited to the plan, option, or type of enrollment under which you had been covered.

Continuing FEHB Coverage for Family Members

Your family members are eligible to continue FEHB coverage for up to 36 months under their own enrollments when they lose their eligibility under your coverage, and are not otherwise eligible for FEHB coverage.

This includes when your child reaches age 22 or marries, or when you divorce and your former spouse does not qualify under Spouse Equity provisions. Neither your human resources office nor your plan will notify you or your family member when he or she loses coverage.

Electing TCC for Family Members

You must notify your human resources office or retirement system within 60 days from the date that your family member loses eligibility under your enrollment. (If you are divorcing, your former spouse may notify your human resources office on his or her own behalf.) Within 14 days, your human resources office will send your family member notice of his or her own TCC rights.

If your family member wants TCC, he or she must elect it within 60 days from the later of:

- the date he or she loses eligibility under your enrollment; or
- the date of your human resources office's notice.

If your former spouse loses Spouse Equity eligibility within 36 months after your marriage ends, he or she must notify your human resources office within 60 days of losing this eligibility to apply for the remaining months of TCC.

Cost of Premiums for TCC

Generally, you or your family member must pay both the government and employee shares of the premium, plus a 2% administrative charge. When TCC ends, you will get another 31-day extension of coverage and conversion rights (unless you canceled your coverage or did not pay premiums).

When TCC Becomes Effective

The first 31 days of the TCC eligibility period overlap with the free 31-day extension of coverage. You must begin to pay premiums for TCC after the 31-day extension of coverage ends. You must pay retroactive premiums to this date even if your enrollment is not finalized by then.

If you:

- elect a different plan or option when you enroll under TCC, and
- you or a covered family member are in a hospital on the 31st day of the extension of coverage, then
- your old plan or option will continue coverage for the hospitalized person as long as he or she is hospitalized, up to 60 days. The other family members' coverage will switch to the new plan or option after the 31-day extension of coverage ends.

Converting to an Individual Policy

You may convert to an individual policy with the carrier of your plan when your FEHB coverage ends, except when you cancel your enrollment. The plan is not allowed to ask for evidence of good health; impose waiting periods; or limit coverage for pre-existing conditions. Your benefits and rates will be different from those under the FEHB Program. The government does not contribute to the cost of the individual conversion contract.

Applying for an Individual Policy

Your human resources office must give you a notice of your right to convert to an individual policy no later than 60 days from the termination date. Complete the back of your copy of the

notice and send it to the carrier of your plan within 31 days from the date of the notice, but no later than 91 days from the date your enrollment terminates.

Consequences of Missing Conversion Deadline

If you miss the applicable deadline, you lose your opportunity to convert to an individual policy unless there are reasons beyond your control (including when you do not get the required conversion notice within 60 days). In those cases, you can ask the carrier of your plan to accept a late conversion. You must send your written request within 6 months after the date your enrollment terminated. You must include some documentation that your enrollment has terminated (for example, a Notification of Personnel Action - SF 50 showing separation from service).

Eligibility of Family Members to Convert to Individual Policy

Your family members also may convert to individual coverage when they lose eligibility under your enrollment, or when their Spouse Equity or TCC coverage ends. Neither your human resources office nor your plan will notify you or your family member when he or she loses coverage. You or your family member should write to the carrier of your plan within 31 days after your family member's FEHB coverage ends to request conversion to an individual contract.

When the Individual Policy Becomes Effective

Your or your family member's conversion contract becomes effective at the end of the 31-day extension of coverage, even when you or your family member is hospitalized on the 31st day of extended coverage.

Obtaining Certificate of FEHB Coverage When Leaving Employment

When your FEHB coverage ends, your plan will automatically send you a Certificate of Group Health Plan Coverage. You need to show this certificate to a new non-FEHB insurer to reduce or eliminate any pre-existing condition limitations that it may otherwise be able to apply to your coverage. If you do not get a certificate automatically, the plan must send you one at your request. If needed, you also may get certificates from other FEHB plans you have been enrolled in to document continued group health plan coverage.

Information on How Your Plan Processes Claims

You can get this information by reading your plan brochure carefully. It will help you become familiar with your plan's benefits and claims procedures. You may also ask your plan directly about benefits, claims payment and claims processing. OPM does not pay or process claims.

When Your Plan Won't Pay a Claim

Your plan brochure has detailed information on how to file a reconsideration request with your plan and a disputed claim request with OPM. Before you request reconsideration from the plan or ask OPM for a disputed claim review, be sure to check your plan brochure.

Federal Employees Group Life Insurance Program

The federal government established the Federal Employees' Group Life Insurance (FEGLI) Program on August 28, 1954. It is the largest group life insurance program in the world, covering over 4 million federal employees and retirees, as well as many of their family members.

FEGLI provides group term life insurance. As such, it does not build up any cash value or paid-up value. It consists of Basic life insurance coverage and three options. In most cases, if you are a new federal employee, you are automatically covered by Basic life insurance and your payroll office deducts premiums from your paycheck unless you waive the coverage. In addition to the Basic, there are three forms of Optional insurance that you can elect. You must have Basic insurance in order to elect any of the options. Unlike Basic, enrollment in Optional insurance is not automatic - you must take action to elect the options.

The cost of Basic insurance is shared between you and the government. You pay 2/3 of the total cost and the government pays 1/3. Your age does not affect the cost of Basic insurance. You pay the full cost of Optional insurance, and the cost depends on your age.

The Office of Federal Employees' Group Life Insurance (OFEGLI), which is a private entity that has a contract with the federal government, processes and pays claims under the FEGLI Program.

General Information

The kinds of coverage federal employees can get under FEGLI are Basic life insurance and Optional insurance. Your Basic Insurance Amount (BIA) is equal to the greater of (a) your annual basic pay rounded up to the next \$1,000 plus \$2,000, or (b) \$10,000.

If you have Basic insurance, you have your choice of three types of Optional insurance: Option A (standard optional insurance), Option B (additional optional insurance), and Option C (family optional insurance). Option A is equal to \$10,000. Option B is equal to one, two, three, four or five times your annual basic pay (after rounding up to the next \$1,000). Option C provides coverage for your spouse and eligible children. For Option C, you may elect one, two, three, four or five multiples of coverage. Each multiple is equal to \$5,000 (\$25,000 maximum) for your spouse and \$2,500 (\$12,500 maximum) for each of your eligible dependent children.

Obtaining Coverage under FEGLI as a New Employee

Most federal employees are automatically enrolled in Basic insurance unless they waive this coverage. Basic is effective on the first day you enter in a pay and duty status in an eligible position.

If you have Basic insurance, you may also elect Optional insurance. You must specifically elect the types of Optional insurance you wish to carry within 31 days of becoming eligible. Optional insurance is effective on the first day you are in a pay and duty status on or after the day your human resources office receives your election.

Extra Benefit for Employees Under Age 45

As part of the Basic life insurance, employees who are under age 45 get an Extra Benefit at no additional cost. The Extra Benefit doubles the amount of the life insurance payable if you are age 35 or younger. Beginning on your 36th birthday, the Extra Benefit decreases 10% each year until, at age 45, there is no Extra Benefit.

Making an Election

You must complete a Life Insurance Election (SF 2817) to waive insurance or to elect Optional insurance. If you do not complete an election form, you are automatically enrolled in Basic only.

Cost of FEGLI Coverage

As mentioned above, the cost of Basic insurance is shared between you and the government. You pay two-thirds and the government pays one-third. Your age does not affect the cost of Basic insurance. As of January 1, 2004, you pay \$0.150 (15 cents) per \$1,000 biweekly or \$0.3250 (32 ½ cents) monthly. If you are a Postal employee, the U.S. Postal Service pays the entire cost of your Basic life insurance.

You pay the full cost of all Optional insurance. The cost depends on your age and the amount of insurance you have. Click on www.opm.gov/insure/life/em_rates.asp to see the rates for Optional insurance. Your agency will withhold the premiums from your pay.

When Salary Is Too Low to Cover Cost

If your pay is too low to allow a withholding for life insurance premiums and your human resources office expects this condition to last for more than six months, you will have a choice. You can choose either to terminate some or all of your insurance coverage or to continue the coverage and pay the premiums directly. Your human resources office can provide more details.

Automatic Increases as Salary Rises

The amount of your FEGLI automatically increases when your salary goes up, whenever your annual pay is increased by an amount sufficient to raise the pay to the next \$1,000 bracket.

No Maximum Amount for Basic Insurance

There is no maximum amount of Basic insurance that an employee can have. The amount is based on your annual basic rate of pay.

Borrowing Against the Policy

The FEGLI Program provides group term insurance. It does not have any cash value and you cannot borrow against your coverage. The only opportunities to get money from your coverage while you are still alive are (1) if you are terminally ill and qualify for Living Benefits, or (2) if you are terminally or chronically ill and assign your coverage to a viatical settlement firm.

Accidental Death or Dismemberment

In the event of a fatal accident or an accident that results in the loss of a limb or eyesight, FEGLI includes Accidental Death and Dismemberment (AD&D) for employees. AD&D coverage cannot be carried into retirement. AD&D benefits are paid in addition to regular death benefits. For the Office of Federal Employees' Group Life Insurance to pay benefits, the death or loss must occur within one year after the accident and be a direct result of bodily injury sustained from that accident.

AD&D insurance is automatically included in Basic at no extra cost. It is equal to the amount of your Basic insurance. It is also automatically included in Option A at no extra cost and it is equal to \$10,000.

Top Ten Reasons to Consider WAEPA Life Insurance

Here are ten reasons why you should consider term life insurance from WAEPA, (Worldwide Assurance for Employees of Public Agencies) a non-profit voluntary employee benefits association that has been serving civilian federal employees and their families since 1943:

- 1** Lower premiums for you, the civilian federal employee. If you are less than age 60, you can save money with WAEPA life insurance compared to your current FEGLI coverage.
- 2** WAEPA's premiums for your spouse and dependent children are also significantly less than those charged by FEGLI.
- 3** With WAEPA life insurance coverage you would be eligible to participate in any future premium refunds. WAEPA has returned over \$15,000,000 in insurance premiums to its members since 1996.
- 4** More coverage options for you the federal employee. WAEPA offers coverage from \$25,000 up to \$500,000. You choose the right amount of coverage to meet your individual needs. Unlike FEGLI, you are not limited by the amount of your annual salary.
- 5** More coverage options for your dependent spouse. WAEPA offers coverage from \$10,000 up to \$250,000 (the current FEGLI maximum is \$25,000).
- 6** WAEPA also offers more coverage for your dependent children. WAEPA offers up to \$25,000 of coverage (the current FEGLI maximum is \$12,500).
- 7** Coverage for your non-dependent adult children – a benefit not provided by FEGLI. Your non-dependent adult children are eligible to apply for their own WAEPA coverage from \$25,000 up to \$500,000 (even if they are not federal employees) once you become a member of WAEPA. It is easy for you to join WAEPA – just pay a one-time \$2.00 membership fee – and no insurance purchase is required on your part.
- 8** You can apply for an increase in your WAEPA coverage at any time. You don't need a special Open Season to do so.
- 9** WAEPA insurance coverage continues if you leave federal service. You retain your WAEPA coverage if you retire or become employed in the private sector.
- 10** Your WAEPA coverage includes free travel accident insurance, which is not available under FEGLI. This feature would increase your selected coverage level by 40%.

To learn more about all the benefits of life insurance from WAEPA visit their web-site **www.waepa.org**, or call 1-800-368-3484.



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WAEPA offers group term life insurance and long-term care insurance to civilian federal and U.S. Postal Service employees and retired civilian annuitants. Family of WAEPA members, specifically non-dependent adult children, parents and parents-in-law, are also eligible to join WAEPA and apply for their own insurance coverage.

WAEPA is a non-profit association that has been serving the federal community since 1943. WAEPA is governed by a Board of Directors composed of senior level government officials who serve on a voluntary basis. You can learn more about WAEPA by visiting their web-site at <http://www.waepa.org>, calling them toll free at 1-800-368-3484, or e-mailing them at info@waepa.org.

Blue Cross Blue Shield Association's Federal Employee Program (FEP) administers the Blue Cross and Blue Shield Service Benefit Plan, the largest privately underwritten health insurance contract in the world. Approximately 51 percent of all federal employees and retirees who receive their health care benefits through the government's Federal Employee Health Benefits Program (FEHBP) are members of the Service Benefit Plan – receiving health coverage through their local Blue Plans.

If you want more information about the Blue Cross Blue Shield Association's Federal Employee Program, please visit our web site at www.fepblue.org.

Wright & Co. has been providing trusted information, education and services for over 36 years to the Federal Employee. Best known for their Professional Liability coverage for all Federal Employees, they also provide Long Term Disability, Individual Dental and many other plans as well. Give them a call at 800-424-9801 (local in D.C. 202-289-0200) or visit them on the web at <http://www.wrightandco.com>. "If you value your money, you will value our services!"

GEICO Direct offers Auto Insurance at Money-Saving Discounts and Total 24-Hour Claims and Policy Service. Give them a call at 1-800-947-AUTO, or visit them at <http://www.geico.com>!

The Law Firm of Shaw, Bransford, Veilleux & Roth has been providing federal employees, agencies and other organizations with experienced and quality legal services since 1982. Call them at (202) 463-8400, or click on <http://www.shawbransford.com> to visit them online.